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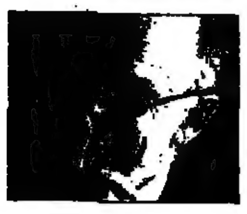


Volkswagen's Piëch
Has the Rottweiler of Wolfsburg gone soft?
Page 8

Lucy Kellaway
How to embrace Plato and nuttiness
Page 8

Place names
When a company's identity depends on its location
Page 9

Today's Survey
Greece and south-east Europe
Separate section

WORLD NEWS

India strongly rejects Pakistan claim that Delhi plans more N-tests

India strongly denied an allegation by Pakistan that it planned more nuclear explosions, insisting it stood by a newly declared moratorium. Pakistan's foreign minister Gohar Ayub Khan made the accusation in a US television interview and said such tests could could escalate their arms race. Meanwhile the US is pressing both countries not to test ballistic missiles and not to arm missiles with nuclear warheads. Page 14

Ultimatum for Arafat
Palestinian Authority president Yassir Arafat and his cabinet have been given two weeks by legislators to respond to complaints about corruption and mismanagement or face a no-confidence vote. Page 3

Thousands killed in Afghan quake
More than 5,000 people were killed in Saturday's earthquake in Afghanistan, according to reports reaching the country's London embassy. Aid workers put the death toll at about 3,000.

EU group is pro-Viagra
The European Medicines Evaluation Agency's advisory committee has given a "positive opinion" on the safety of the impotence pill Viagra, says its maker Pfizer. But it could still be three months before the drug is approved for sale in the EU. Page 2; Pfizer to build regional HQ, Page 6

10 more die in Kosovo clashes
At least 10 ethnic Albanians have been killed by Serbian security forces in Kosovo over the weekend and dozens are missing, according to the Albanian-run Kosovo Information Centre.

HK marks Tiananmen anniversary
More than 2,000 people marched in Hong Kong to mark the anniversary of the Tiananmen Square massacre for the first time since China took over the former British colony. The demonstrators handed in a petition urging Hong Kong leader Tung Chee-hwa to support democratic movements in China. Picture, Page 4

Tornado flattens US village
A tornado wiped out the small US town of Spencer, south-east South Dakota, killing at least six people and injuring 150.

Banana trial due to open
Former Zimbabwe state president Canaan Banana was due to go on trial today facing 11 serious sexual charges. The cases against the 62-year-old Methodist church priest were compiled after complaints by one of his former presidential guards.

Iranian speaker re-elected
Iran's conservative speaker of parliament Ali Akbar Nateq-Nouri defeated a moderate opponent to win a further one-year term.

California votes on education
Californians may vote to scrap bilingual education when they go to the polls tomorrow. Page 3

Banknotes recycled
A north German company hopes to cash in on the forthcoming switch from D-marks to euros by composting the old banknotes for garden use. Umweltschutz Nord, based near Bremen, plans to sell the bills back to the public as "Bioferm" dry compost.

Then there were four
Ginger Spice Geri Halliwell confirmed she is leaving the Spice Girls. But the all-girl British pop group said it would continue with four Spices and would go ahead with its US tour.

BUSINESS NEWS

Changes in Europe lead to resurgence of the independent central bank

The march of the independent central bank takes two steps forward, with the establishment of the European Central Bank and the formal granting of statutory independence to the Bank of England. Page 14; Return to independence, Page 6

Goldman Sachs, the New York-based investment bank, took an important step on the road to the possible abandonment of its partnership structure in favour of a listing on the stock market. A public offering by Goldman would be one of the largest sales ever seen on Wall Street, with a potential value of $22bn. Page 15

Richard Branson intends to seek stock market listings for a number of Virgin Group companies to help finance the growth of his diverse corporate empire. Page 15; Comment, Page 16

Bupa, the UK's biggest health insurer, is seeking partners in Latin America, one of the world's fastest-growing health insurance markets. Page 16

Fortis, Belgo-Dutch financial services group, believes it already has at least 40 per cent of Générale de Banque, Belgium's biggest bank, within its grasp. Page 15

Enel, Italy's state-owned electricity group, has been forced to record a net loss after a technical dispute over the costs of the country's now defunct nuclear energy programme. Page 20

Viag, the Munich-based industrial conglomerate, refused to comment on German press reports that Georg Obermeier, chairman, is set to leave his post early. Page 25

Amoco, US energy group, is believed to be close to a deal to sell the Amoco Building, one of the largest "downtown" skyscrapers in Chicago and the city's second tallest building. Page 20

Skybridge, one of two competing satellite consortia racing to build an "internet in the sky", is to increase the capacity of its system at a cost of $700m, taking the total cost to $4.2bn. Page 17; Editorial Comment, Page 13

British Energy has reaffirmed its interest in purchasing a stake in all 20 nuclear reactors owned by Ontario Hydro, the state-owned utility. Page 22

Swire Pacific chairman Peter Sutch is to step down next May, clearing the way for James Hughes-Hallett to become the 32nd taipan of the British-controlled hong, or trading house. Page 17

Larsen and Toubro, India's biggest engineering and construction group, posted a rise in full-year profits helped by gains from restructuring. Page 20

Malaysian economic activity contracted by 1.8 per cent in the first quarter compared with a year earlier – in contrast with growth of 6.9 per cent year-on-year in the fourth quarter last year. Page 4

Johnnic, South Africa's flagship black conglomerate, has announced a strategic realignment to create a group focused on media, information, television, technology and entertainment. Page 24

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 22

Clinton backs Russia aid

US moves to calm markets

By Stephen Fidler in Washington

Bill Clinton, the US president, yesterday stepped in to calm gathering turmoil in Russia's financial markets by promising backing for new funding from international lending agencies.

"The United States endorses additional conditional financial support from the international financial institutions as necessary to promote stability, structural reforms and growth in Russia," he said.

Mr Clinton made the statement after speaking to Boris Yeltsin, the Russian president, last week and after a series of emergency meetings and telephone conversations between US and Russian officials in recent days. Anatoly Chubais, a former senior finance official, held high level meetings in Washington on Friday.

The talks have been triggered by a flight of capital away from Russia's markets, which has pushed shares down by 40 per cent since the start of the month.

The statement welcomed new economic proposals announced by the government last week. "Implementation of this programme will strengthen the fundamentals of the Russian economy and foster maintenance of a stable rouble," Mr Clinton said.

But US officials made it clear that the possibility of bilateral aid direct from the US and other countries was not under discussion. "We are committed to working with the international financial institutions to provide conditioned financial support as necessary and we are in active dialogue."

The official added: "It's too early to know amounts or precise methods, which will depend very much on how the situation evolves." He said the focus was on support from international financial institutions "and on Russia's efforts to raise resources from the private sector rather than on bilateral support".

Previous US contributions to IMF-led bail-outs have provoked controversy in the US, most notably when the US administration used the resources of the Exchange Stabilisation Fund – normally used for foreign exchange market intervention – in a support package for Mexico in 1995. Use of the fund does not require the approval of Congress.

The US last week backed the release of a $670m instalment of a previously negotiated $9.2bn three-year programme with the IMF. But it is not now seen as enough in spite of IMF officials saying it should be sufficient when taken with the measures announced last week to stabilise the financial markets.

Russia's economy has been dealt a double blow: the Asia crisis, in which investors have drawn parallels with Russia, and the collapse in oil and gas prices as well as the gold price, from which sources Russia still derives some 70 per cent of its foreign exchange reserves.

Poor tax collection has threatened government finances and, with investors getting nervous, foreign exchange reserves have fallen to about $14.5bn, of which almost $5bn is not in liquid form. But some reports say there was a modest recovery in reserves last Thursday and Friday.

Russia is seeking funds from private financial institutions to refinance its domestic debts.

Calls mount for Habibie to quit

By Gwen Robinson in Jakarta

Indonesia's president, B.J. Habibie, has come under renewed pressure to step aside.

A massive demonstration east of Jakarta demanded his departure, and an influential group of retired generals called for an interim government and elections.

Several hundred thousand people gathered yesterday in Surabaya, the capital of East Java, under the banner of the country's largest Moslem grouping, the 30m-strong Nahdlatul Ulama. The crowd, though peaceful, challenged the legitimacy of Mr Habibie's government, which came to power on the resignation of former president Suharto.

On the same day, 18 retired generals led by Achmad Kemal Idris, a former senior army commander, issued a statement demanding that Mr Habibie step down and call a special session of the People's Consultative Assembly (MPR) by July.

Meanwhile, Hubert Neiss, the Asia-Pacific director of the International Monetary Fund, who left Jakarta at the weekend after a four-day visit, said he felt the economy was still in decline and needed "urgent attention", although a gradual recovery might begin later this year. "There is no doubt the Indonesian economy has further deteriorated. In particular, the distribution system has been damaged and the banking system has come under further strain," Mr Neiss said.

Standoff: A guard struggling to control crowds seeking withdrawals at a Jakarta bank Picture Reuters

The statement from the generals argued that Mr Suharto had no right to delegate his presidential mandate to his deputy. The MPR, which meets every five years to elect the president and his deputy, should revoke decrees installing Mr Suharto as president and Mr Habibie as vice-president and elect a caretaker leader until elections could be held.

Mr Habibie last week reached agreement with Harmoko, the influential speaker of parliament, to call an extraordinary MPR session by early next year at the latest to set the date for polls.

Frans Seda, a former economic minister in the Suharto government, said yesterday a one-year timescale for elections was "too long". Doubts over the legality of the Habibie government were eroding public trust and damaging international confidence in Indonesia's battered economy.

In a separate challenge to Mr Habibie's promises of greater political freedom, the former editors of Tempo magazine, banned by Mr Suharto in 1994, said they hoped to revive the publication.

New friends needed, Page 4

Feet and inches look set to stay yardstick in Europe

By Michael Smith in Brussels

The pounds, ounces, feet and inches treasured by millions of British and Irish consumers appear to be heading for a reprieve from extinction in Europe.

Top officials at the European Union are backing calls from US and European industry to delay the requirement that companies must label the weight and size of products only in metric units from January 2000.

Pints of milk, beer and cider, as well as miles, already have permanent exemptions. Now businesses on either side of the Atlantic want to continue using labels carrying both metric and imperial measurements. They say a metric-only rule will force manufacturers to have separate labelling systems for goods destined for Europe or the US, where imperial measures are used.

The labelling regulations are part of European legislation to harmonise weight and size measurement in metric units.

The biggest impact of the harmonisation is in the UK and Ireland, where many people still think in imperial measures, even though metric measurements are already the legal system of units under EU regulations.

After pleas from business, Martin Bangemann, the EU's industry commissioner, decided to support a delay to the metric-only rules. It is believed that Mario Monti, single market commissioner, and Sir Leon Brittan, trade commissioner, also favour postponement.

Their opinions are likely to be influential among the 15 EU countries and in the European parliament, which must approve any changes to the regulations. The UK government is lobbying for postponement.

Unice, an organisation representing European business, says failure to delay metric-only implementation would add significantly to companies' costs, especially for packaging, labelling, warehousing and inventories.

Mr Bangemann has yet to decide on the length of a postponement, but one idea in the Commission is for a 10-year delay.

Travelers in $1bn deal with Nikko

By John Authers in New York and Gillian Tett in Tokyo

Travelers, the US financial conglomerate, is expected to announce today that it is taking a stake of about 25 per cent, for about $1bn, in Nikko Securities, Japan's third-largest stockbroker, in the most far-reaching tie-up between a US and a Japanese financial services group.

As part of the deal, the two groups are setting up a joint venture company, to be known as Nikko Salomon Smith Barney, which will be 51 per cent owned by Nikko and 49 per cent owned by Salomon Smith Barney, the brokerage formed by last year's $9.5bn acquisition of Salomon by Travelers. The chief executive will be drawn from Salomon and its chairman from Nikko.

The joint venture, which is aimed at building a corporate banking global "one-stop shop", will include all the Japanese corporate and institutional businesses of Salomon Smith Barney and the domestic and international institutional and corporate businesses of Nikko. It excludes Nikko's retail and asset management business.

Salomon Smith Barney and Travelers declined to comment. Nikko also refused to indicate the terms. A Nikko official said: "We are discussing with Travelers Group about a new business, including equity investment, but there is no decision yet."

Travelers will acquire a far larger stake in a Japanese broker or bank than any other foreign group. The purchase is part of the "bargain-hunting" by US financial services groups in the wake of last year's Asian currency devaluations. Nikko is also understood to be taking a stake in Travelers, but the amount is not yet known.

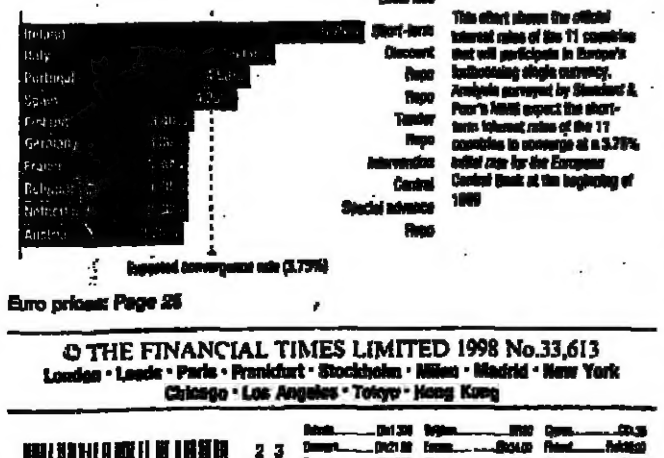
It is understood that Nikko initiated talks on the joint venture after several years of lacklustre results. In 1997 the company reported a pre-tax loss of Y38.2bn.

Last year Nikko announced that it would set up two joint ventures with Salomon Smith Barney to offer consulting services to corporate companies and develop brokerage "wrap accounts" for the retail market. These accounts, which are similar to bank accounts, are to be permitted in Japan for the first time this year.

The proposal to take an equity stake came from Travelers, which was keen to make the alliance as close as possible. The group gains a seat on Nikko's board. It also forms an important part of Travelers' preparations for its merger with Citicorp, the US international bank, for most analysts believe that the best chances for the new company, Citigroup, to raise revenues in the short term will come from corporate banking.

See Lex, Page 14

EURO INTEREST RATE CONVERGENCE



Euro prices: Page 25

CONTENTS

Full contents and Lex: back page

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Air France pilots prepare to strike over pay proposal

By David Owen in Paris

France was last night braced for a damaging strike by Air France pilots which threatens to weaken the national carrier's financial recovery and harm the country's international image in the run-up to the World Cup football tournament which starts on June 10.

Air France has already warned of severe cuts to its scheduled flight programme between June 1 and 4, with 90 per cent of long-haul flights affected.

In the absence of formal discussions between the two sides yesterday, the strike over the company's proposals to cut the annual pilots' salary bill by FFr500m ($84m) looked set to start early this morning.

The company indicated yesterday that a degree of disruption was inevitable even if there was an unexpected 11th-hour settlement, since it would take some days to "put the flight schedule back on its feet".

There are hopes some improvement may be possible after a few days, however, since the strike notices of the smaller unions are for shorter periods than those of the SNPL, which represents about 60 per cent of Air France pilots.

A prolonged strike could jeopardise Air France's hard-won financial turnaround, which was demonstrated last week when it reported its first full-year net profit for several years.

Jean-Cyril Spinetta, Air France's chairman, said the group – which is slated for part-privatisation in the autumn – remained in a state of convalescence. The company needed to remain vigilant on costs.

A stoppage would be particularly ill-timed from Air France's viewpoint, since June is traditionally the best month for its domestic operations even in non-World Cup years.

A strike would also be an unwelcome postscript to a remarkably successful first year in office for Lionel Jospin, the Socialist prime minister, whose party swept unexpectedly back to power on June 1 1997.

Buoyed by the country's economic upturn, Mr Jospin has built a reputation for pragmatic and sure-footed government, in spite of frequent tensions with the Socialists' main coalition partners, the Communists and the Greens.

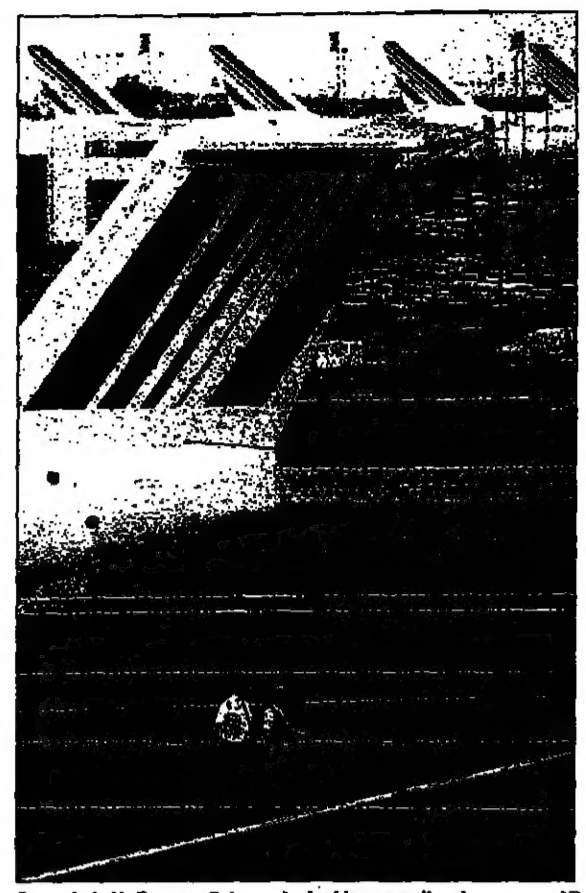
Among the landmarks of the French prime minister's first year in office have been France's qualification for the first wave of monetary union and the part privatisation of France Telecom in an exercise that raised FFr42bn for the state.

The country's unemployment problem has also started to ease, with the jobless rate dropping below 12 per cent in April, against 12.5 per cent when the left came to power.

Mr Jospin has managed consistently to keep the upper hand in his enforced cohabitation with Jacques Chirac, the Gaullist president, whose ill-judged decision to call a snap parliamentary election opened the door to the left.

Disruption is also likely on the French railways this week, following the tabling of formal notices of strike action by a number of rail unions.

Business Travel, Pages 8, 10
Editorial Comment, Page 13



Grounded: Air France pilots are locked in a pay dispute AP

Inflation gaps widen in euro-zone

By Wolfgang Münchau in Frankfurt

The differences in national inflation rates across Europe widened during April, in a sign that the euro-zone may face early economic strains.

According to Eurostat, the European statistics office, the harmonised consumer price index in the 11 founder states of the European single currency rose from an annual 1.2 per cent in March to 1.4 per cent in April.

Inflation picked up markedly in some of the fastest growing countries. Ireland, the Netherlands, Spain and Portugal are currently expanding strongly, but growth in Germany and France has been more subdued despite some signs of economic recovery.

The Netherlands recorded an annual inflation rate of 2.5 per cent, the highest among the countries surveyed and up from 2.2 per cent in March.

Inflation in Ireland reached 2.0 per cent in April, from 1.5 per cent in March. The Italian rate also edged up, to 2.2 per cent, and Portugal's shot up from 1.5 per cent in March to 2.2 in April.

Germany and France recorded April inflation rates of 1.0 per cent, the lowest in the euro-zone.

Although the divergence across the euro-zone is not yet serious, problems could occur if Dutch, Irish and Portuguese inflation continued rising.

Eurostat also released data showing the E-11 economy grew by 2.5 per cent in 1997 – compared with US growth of 3.8 per cent and Japanese growth of 0.9 per cent.

A national breakdown of the growth data showed that the Finnish economy grew 5.9 per cent, while Italy grew only 1.5 per cent. No separate Eurostat data were available for Ireland. The German and French economies grew 2.2 per cent and 2.3 per cent respectively.

The euro-zone's trade surplus with the rest of the world (including other EU countries) was 3.4 per cent of gross domestic product.

The data suggest that the European economy started to pick up last year.

Italian men embrace 'la pillola dell'amore'

By Paul Betts in Milan

Italians have taken by assault the six pharmacies of the picture-postcard Republic of San Marino to buy the new anti-impotence drug Viagra, better known in Italy as *la pillola dell'amore* – the love pill.

Although the drug, manufactured by Pfizer, the US pharmaceutical company, has yet to be cleared by the European Union and Italian health authorities, it is on sale in the ancient independent state in the heart of the rich northern Italian region of Emilia-Romagna, better known for parmesan cheese and prosciutto.

The government has become increasingly alarmed by the public enthusiasm for Viagra, which retails in San Marino for L825,500 ($480) for a small container of 30 pills. Rosy Bindi, Italian health minister, wrote last week to her San Marino counterpart to seek his co-operation to control sales of Viagra in his tiny state. Raffaele Guariniello, a Turin magistrate, ordered Italian police to launch a country-wide investigation on suspected black market sales of Viagra in Italy.

San Marino officials have insisted that Viagra can be bought only on a doctor's prescription and that they are co-operating with the Italian authorities to prevent abuses and black market sales of the drug.

Recent worries over possible serious side effects caused by the drug, especially among patients suffering from heart conditions, appear to have stemmed the flow of sales in San Marino in the last few days. However, demand has been sustained, with daily sales averaging between 60 and 100 pill containers.

The issue has now assumed a national dimension, overshadowing another pharmaceutical controversy over a supposed miracle cancer cure developed by an Italian doctor, Professor Luigi Di Bella.

San Marino has been dubbed "the land of virility" by Italian newspapers, which have enjoyed interviewing Italians of all ages queuing to buy the "love pill". A cartoon in Milan's Corriere della Sera newspaper last Thursday showed the leaning Tower of Pisa in an erect position as a result of the action of Viagra.

But the biggest controversy has been sparked by Mediaset, the commercial TV network controlled by Silvio Berlusconi, the former rightwing prime minister and media tycoon, which has aired a two-day prime time show devoted to Viagra.

The highlight of the show was the decision of a former Italian football idol, Stefano Tacconi, 41, who played in goal for Juventus and the Italian national team, to test the pill for the programme on Wednesday night. Tacconi came back on Thursday night to report that the pill "extended his performance but took away the poetry."

The gimmick provoked an instant uproar in the medical profession, with doctors claiming it only helped to sensationalise the issue even further, misleading the public by suggesting the prescription drug was an aphrodisiac.

As the Viagra debate raged on, there was a twist to the saga with the announcement that Hatu, the country's oldest maker of contraceptives, based in Bologna, was closing down after 75 years.

Viagra secures 'positive opinion'

The advisory committee of the European Medicines Evaluation Agency has adopted a "positive opinion" on the safety of the impotence pill Viagra, its maker Pfizer has said, writes Tracy Corrigan in New York.

But it could still take up to three months for the European regulator to approve Viagra for sale in the European Union's 15 member states.

The agency said it had considered the latest safety data available in the US, where six patients are reported to have died while on Viagra since its approval in March by the US Food and Drug Administration.

Pfizer said last week that the information available suggested "these cases were attributed to either cardiovascular events associated with sexual activity in older men or a combination of Viagra and nitrates".

Viagra labels already warn against its use by patients who are taking drugs which contain nitrates such as nitroglycerine, an ingredient in medicines for some heart conditions.

Election result set to be close

By Guy Dinmore in Podgorica, Montenegro

A close result was expected yesterday in the general election contest in Montenegro between pro-western reformists and supporters of Slobodan Milosevic, the federal Yugoslav president.

Police were preparing to deal with a repeat of the street protests that marred the presidential poll last year.

The elections are crucial to Mr Milosevic's efforts to centralise control over Yugoslavia, which consists of Serbia and the much smaller republic of Montenegro.

Milo Djukanovic, Montenegro's pro-western president, has threatened to hold a referendum on independence if the republic is not given equal status within Yugoslavia.

Opinion polls, although rarely reliable, indicated that Mr Djukanovic's ruling Democratic Party of Socialists would narrowly defeat the Socialist People's party of Momir Bulatovic, a close ally of Mr Milosevic.

Although neither party is likely to win an overall majority in the 78-seat parliament, Mr Djukanovic has a better chance of forming a governing coalition with smaller Moslem and ethnic Albanian parties and the pro-independence Liberals.

With an electorate of only 457,600, a handful of votes could influence the outcome. Mr Djukanovic attracted larger rallies in the capital Podgorica but the Bulatovic clan is strong in the north, where ties with Serbia are closer.

Mr Bulatovic's party has a stronger grassroots organisation inherited from the former communists. In the village of Bistrice, near Podgorica, voters complained that out of a total of 367 more than 50, most of them Djukanovic supporters, had been unable to cast their votes because of what they alleged was manipulation of the electoral list.

Some 170 observers from the Organisation for Security and Co-operation in Europe (OSCE) monitored the elections, which produced a high turnout. Both parties were preparing to claim victory last night although official results were not expected until today.

Supporters of Mr Bulatovic threatened to take to the streets if the result went against them. Mr Bulatovic was ousted as president by Mr Djukanovic in close elections last October but refused to recognise the result, accusing his rival of fraud.

In January, on the eve of Mr Djukanovic's inauguration, Mr Bulatovic led a mob that attacked government buildings in what opponents said was an attempted coup.

Earlier this month Mr Milosevic appointed Mr Bulatovic as the new federal Yugoslav prime minister. In turn Mr Djukanovic has refused to recognise his government, meaning that Yugoslavia exists in little more than name only.

Bonn, Kiev press aircraft study

By Peter Norman in Bonn

Germany and Ukraine have agreed that a study of possible co-operation on a large military transport aircraft based on the Russo-Ukrainian Antonov 70 should be completed swiftly, so that a decision on the project can be taken at the start of next year.

After meeting Ukraine's President Leonid Kuchma in Bonn last Friday, Helmut Kohl, the German chancellor, said the two countries did not want a decision on the project to be delayed for a long time.

The AN-70, which has already been built, could be part of Europe's response to the creation of a huge US aerospace group through the merger of Boeing and McDonnell Douglas, said Mr Kohl.

Volker Rühe, Germany's defence minister, has ordered Daimler-Benz Aerospace (Dasa) to study the AN-70 as an alternative to the Future Large Aircraft (FLA), which has been developed as far as the design stage by the European Airbus consortium.

In a radio interview, Mr Rühe said there was a "tailwind" behind the project and there was a need to establish whether it would be technically and economically feasible for Ukraine, western Europe and Russia to develop and produce the aircraft.

Airbus has refused to take on the AN-70 project on the grounds that it would be insufficiently reliable and too costly to maintain.

Mr Rühe also said that Germany would not back the project on political grounds alone and that there would have to be a fair division of labour.

But the Bonn government clearly sees political and commercial advantages from backing the AN-70 provided the detailed work by Dasa in the next three to four months establishes that the project is feasible.

Mr Rühe said co-operation with Russia and Ukraine would enable a bigger production run than with a west European aircraft.

It would also enable genuine competition against the US, and open opportunities to export the aircraft to countries such as China and India.

Politically, co-operation would be a "most important signal" that the division of Europe between east and west was over.

Mr Rühe said the AN-70 could also help reduce Russia's hostility to the eastward enlargement of Nato.

Mr Kuchma said his government in Kiev was ready to co-operate on the AN-70.

The study, he said, would confirm it was "an aircraft of the 21st century", adding that his country would consider it an "insult" if the AN-70 remained just a Russo-Ukrainian project.

ALBANIA ITALIAN PM ENDEAVOURS TO RESURRECT TRADE RELATIONSHIP

Rome seeks 'bridge to Balkans'

By James Blitz

Romano Prodi, Italy's prime minister, has been trying to and [illegible] his country's long with [illegible] relationship [illegible] Albania.

After a c[illegible]

Italians and Albanian which eyed each other [illegible] have across the Adriatic sea, [illegible] Prodi, accompanied by a group of senior government officials, made the one-hour flight from Rome to Tirana to open a trade fair last week.

Relations between Tirana and Rome have had their ups and down over the last 60 years. In 1939, Benito Mussolini, the dictator, invaded the country, toppling King Zog and briefly turning the country into an Italian colony.

Then for the next 50 years, Italians watched helplessly while Albania was repressed by Enver Hoxha's ruthless regime.

Last year, Italian troops were despatched to the country to restore order after the collapse of a pyramid investment scheme [illegible] led to widespread rioting.

Now, Mr Prodi's government hopes to resurrect a [illegible] trade relationship [illegible] was all but destroyed [illegible] the [illegible] of 1997, building what he calls "a business bridge to the Balkans."

Walking through the potholed and dusty streets of Tirana with Mr Prodi's elegantly dressed delegation, it was hard to see Albania as an investors' paradise.

With monthly wages averaging around $50, this is [illegible] poorest country in Eur[illegible] Outside the city, ther[illegible] barely any law and ord[illegible] speak of.

"This is what the south of Italy looked like about 70 years ago," said a member of Mr Prodi's team.

Yet the Italians are making a real effort to develop the relationship. Five hundred Italian companies are now in Albania. Some L500bn ($288m) has been pledged in investment by the Italian government. Rome city council has donated 1000 second-hand yellow buses to the country. Bizarrely, each still carries the City of Rome insignia.

Adding to the relationship is [illegible] the ability of many Albanians to speak good Italian. If [illegible] they were too scared to tu[illegible] Italian television [illegible] years, 700,000 [illegible] dotting the [illegible] ape suggest [illegible] ng to [illegible] ase of political pressures to slow down the flow of Albanian refugees to their country. Some 300,000 Albanians are thought to be living in Italy.

The extremely low cost of labour in Albania is also attractive for companies in the Mezzogiorno. Southern Italian firms are these days reprocessing shoes, clothing and other goods in and around Tirana. "The Florentine tablecloths you buy in Florence are often worked on here," said Ruggero Manciati, president of Simest, a government investment organisation.

Doing business in this economy is a hard grind. But Michele Galizia, an office chair salesman, was optimistic. "There are a lot of new government offices being set up by Albanian's new leaders. And those new offices need an awful lot of chairs."

NEWS DIGEST

COLOMBIAN PRESIDENTIAL ELECTIONS

Bomb explosion mars first round of voting

Colombians went to the polls yesterday to elect a new president, despite fears that guerrillas would attempt to disrupt the vote in some areas.

In the oil refining town of Barrancabermeja, a bomb went off a few minutes before polling stations officially opened, killing three people. Authorities said the bomb was probably the work of the leftwing guerrilla movement, National Liberation Army.

In the southern regions of Putumayo and Narino, several municipalities moved their voting stations to local capitals on the grounds that guerrillas might sabotage the voting process.

Andres Pastrana, the Conservative party candidate and the business community's favourite, is expected to win the first round. But the recent dramatic rise in popularity of an independent candidate, Noemi Sanin, appears to be complicating the presidential bid of the populist Liberal party candidate, Horacio Serpa, who until a few days ago was considered a sure qualifier for the second round. **Adam Thomson, Bogotá**

ECUADOR

Rain keeps away voters

Rain in Guayaquil and other coastal provinces kept voters away from the polls yesterday morning in Ecuador's congressional and first-round presidential elections.

However, fine weather in Quito encouraged a strong turnout in early voting. Jamil Mahuad, mayor of Quito and candidate for the centre-right Popular Democracy (DP) party, and Alvaro Noboa, businessman and candidate for a coalition of populist parties, were expected to get the highest vote in the presidential contest, according to opinion polls. The two candidates who win the most votes compete in a second round on July 12.

No single party is expected to win a majority in Congress. But the market-oriented Social Christian party (PSC) and DP will probably be the largest blocs. **Justine Newsome, Quito**

INDONESIAN FOREST FIRES

Damage estimated at $4.4bn

The Indonesian forest fires, which cloaked neighbouring countries in hazardous pollutants, caused $4.4bn in economic damage last year, according to a study on the environmental disaster.

The Economy and Environment Program for South-east Asia and the World Wide Fund for Nature said in their study that the estimate was conservative and did not include loss of life, possible long-term health effects, or the full value of lost biodiversity.

The study cites $493m in timber losses, $470m in forgone agricultural production, $1.8bn in ecological services provided to people by forests, and $272m for the contribution to global warming from the release of carbon.
Sheila McNulty, Singapore

HOLOCAUST INSURANCE CLAIMS

Regulators to hold talks

US and European insurance regulators are to meet for the first time to discuss ways of speedily resolving disputed life insurance claims dating back to the Holocaust era.

The meeting, to be held in London on June 10, follows mounting pressure from Californian and New York state insurance regulators to set up an independent international commission which would force European insurance companies to address the issue of disputed life insurance policies of Holocaust victims.

The US regulators' action comes after several states threatened recently to boycott the operations of Swiss banks which did not speedily settle the multi-billion-dollar class actions of Holocaust survivors. California has already proposed legislation to allow its insurance regulator to suspend the licences of insurance companies that fail to honour claims of Holocaust survivors. **William Hall, Zurich**

INVESTMENT

Steep revenue rise forecast

Global net revenues of the investment and asset management industry are forecast to rise from $277bn in 1996 to $900bn in 2010 according to Strategic Finance, a new quarterly report from the Economist Intelligence Unit.

Growth is expected to come as Europe and the rest of the world follows the success of the US financial services industry in marketing investment products and pensions to consumers, the report said. "Our figures on the revenue map show clearly that the US investments business is way ahead of its counterparts in the rest of the world," said Andrew Freeman, the editor. Figures compiled by Strategic Finance give the US revenues of $138bn in 1996 – with offshore assets allocated back to the country of origin.

In comparison Japan had $21bn, the UK $14bn, France $12bn, German $11bn, Canada $11bn, Brazil $9bn, Australia $7bn, and Switzerland $6bn. **Jim Kelly, London**

ITALIAN ECONOMY

Fazio criticises government

Antonio Fazio, the governor of the Bank of Italy, has delivered a strong criticism of the government's medium-term economic policy, arguing that its budget goals must be more ambitious if the country is to thrive in the euro-zone.

While acknowledging that the government's economic programme was going "in the right direction" he warned that the process of macroeconomic reform was still incomplete.

Mr Fazio's address to the central bank's general assembly was his last before Italy enters the euro-zone, which covers the 11 first-wave participants in the European single currency. Mr Fazio warned that more needed to be done to cut pension spending, boost employment and reduce taxes if the government's forecasts for growth and deficit reduction were to be sustained. **James Blitz**

BRAZIL

Support for Cardoso falls

Brazilian financial markets are expected to come under pressure today after an opinion poll showed that support for President Fernando Henrique Cardoso had fallen sharply over the last month while his leftwing rival had gained ground.

The poll by the Datafolha organisation, which was published in Saturday's edition of Folha de S. Paulo newspaper, gave Mr Cardoso 34 per cent support, down from 41 per cent one month ago and the lowest point in his administration.

Luis Inácio Lula da Silva, the candidate of the leftwing Workers party (PT), scored 30 per cent in the poll, up from 24 per cent in April. The news of Mr Cardoso's falling support is likely to increase nervousness in Brazilian financial markets. Shares on the São Paulo stock exchange fell 3 per cent on Friday, in part because of rumours about the Datafolha poll. **Geoff Dyer, São Paulo**

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Russian financial turmoil poses dilemma for IMF

By Stephen Fidler in Washington and Chrystia Freeland in Moscow

President Bill Clinton's announcement yesterday that he would support extra funding for Russia from international lending agencies was clearly aimed at bolstering confidence in Russia's nervous financial markets.

Yet while the statement may well be helpful, the financial markets may demand more evidence of the importance of the commitment. A senior US administration official yesterday said discussions of future financial help for Russia would centre on the international financial institutions, and talks now under way with private sector banks. But the official made clear that no bilateral support for Russia – from the US or from anywhere else – was under discussion.

The announcement is likely to reassure financial markets, however. "The international capital markets are punishing Russia due purely to panic," argues Peter Boone, co-head of research at Brunswick Warburg, a Moscow-based brokerage, before Mr Clinton's statement. "The fundamentals don't justify this. It is now in the hands of the G7 and the IMF to prevent an undeserved crisis that could unravel a painstakingly achieved financial stabilisation."

Yet Russia poses an intense dilemma for the IMF. On the one hand, a financial breakdown in Russia could emphasise how much it is needed in the new world economic order of rapid and volatile international capital flows. This could reinforce the IMF argument that it needs more capital – and speed consideration in the US Congress of an $18bn contribution to its capital base.

The Fund argues it has only $10bn-$15bn of uncommitted resources available for new lending, and a further $30bn-$35bn under the more cumbersome mechanisms of the General Agreement to Borrow. This would mean it would not have the resources to cope with a new financial crisis of the magnitude of Asia's last year.

However, officials are conscious that many investors in the Russian market have been betting heavily that the IMF and others will step in. The clamour of western investors and the financial groups for a rescue package has made the Fund wary. "We have to recognise that in Russia the IMF has been the only game in town for investors," said one senior monetary official.

With officials sensitised to the accusation that a bail-out would encourage moral hazard – by rewarding reckless investors – any new package is likely to demand a private sector contribution and more economic conditions for the Russian government. However, the view in Washington yesterday was clearly that because most of Russia's debt was in roubles, there would be no discussion soon of investors being forced to take "haircuts" or losses, along South Korean lines.

The IMF has however been publicly critical of Moscow's efforts to arrange a private rescue package, arguing that now is the wrong time to seek big new private loans. The government has said it hopes to restructure its short-term, high-yielding rouble-denominated debt into longer-term, cheaper loans from western banks.

"I would not advise the Russian government to do it until stability has returned in financial markets," John Odling-Smee, the IMF's top Russia specialist, said. "Otherwise, there is a risk either that it can't be done or that the price that will be paid for that kind of financing will be very high."

In fact, until the US announcement, the IMF had been reluctant to give in to calls to step up its support. Officials were arguing even late last week that the financial turmoil in Russia was not severe enough to require massive external assistance, beyond the $670m it agreed to release last week as part of the earlier $10bn, three-year agreement.

The Fund was also arguing that the crisis package announced by the Russian government last week was sound and that there were no grounds for a devaluation of the rouble, or for continued instability on Russian financial markets.

Part of the Fund's concern may be that the promise of a bail-out may well dissipate a sense of urgency generated by the turmoil, and that the Russian government would revert to its pattern of the past two years, when it has promised fiscal reforms, but been slow in achieving them.

This apparent difference in US and IMF views emphasises the political nature of the process: Russia was last week described by one US academic as "Jakarta with 10,000 nuclear warheads".

In a reprise of criticisms that were heard of its activities in Asia, the Fund has also been attacked for insisting on excessively tight monetary and fiscal conditions in Russia. Jeffrey Sachs, Harvard professor of economics, said IMF advice to "squeeze, squeeze harder and squeeze hardest" meant there would be no growth in Russia "this year and for some time to come".

Ultimatum to Arafat from legislators

By Judy Dempsey in Jerusalem

Palestinian legislators have given Yassir Arafat, president of the Palestinian Authority, and his cabinet a fortnight to respond to complains about corruption and mismanagement.

Failing that, they will hold a no-confidence vote, as frustration grows over the slow pace of reform and democratisation. Deputies from the Palestinian legislative council (PLC), the de facto Palestinian parliament, pulled back from holding a confidence vote on Saturday following promises from the cabinet it would address these issues as well as this year's budget.

Similar promises have been made in the past, with Mr Arafat pledging a cabinet reshuffle, an end to corruption, greater transparency and the implementation of decisions passed by the PLC. Few were ever honoured.

Some of the most vocal critics at Saturday's meeting came from Mr Arafat's Fatah movement, the largest political faction, which controls 60 of the PLC's 88 seats.

"We were forced to take this step," said Marwan Barghouti, a senior Fatah member who is demanding a clear division of powers between the executive and legislative branches.

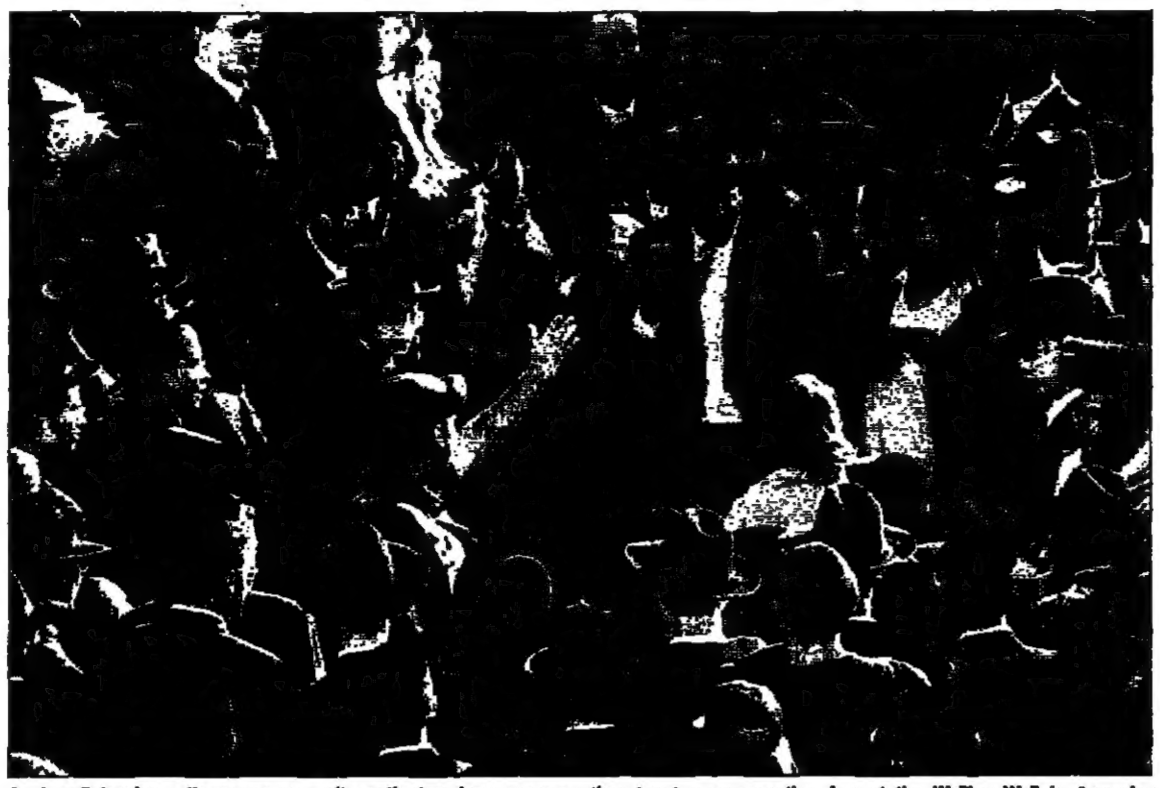
Mr Arafat bought some time by signing five minor laws passed by the PLC. But so far he has failed to sign the Basic Law which sets limits on the PA's powers. Instead, he has been preoccupied with mobilising support from Arab states to convene a special Arab summit in response to the stalled peace process.

Benjamin Netanyahu, Israeli prime minister, has already declared the peace process "dead". He recently told ambassadors it "died two years ago" before he was elected to lead a coalition government of nationalists and religious parties.

At the weekend, Mr Arafat flew to the United Arab Emirates to co-ordinate positions for a summit after meetings earlier in the week in Saudi Arabia. Yesterday, Crown Prince Abdullah of Saudi Arabia travelled to Syria and Jordan to discuss an agenda and venue.

According to Asharq al-Aswat, the London-based newspaper, Syria wants to hold the summit in Damascus. Jordan, suspicious of Syria's role and fearing it will be criticised for its 1994 peace treaty with Israel, wants the summit to be held in Cairo.

File from Jerusalem, Page 10



An Israeli border policeman waves ultra-orthodox Jews away as they taunt a conservative Jew at the Wailing Wall in Jerusalem yesterday, during an outbreak of scuffles among rival groups during prayers Reuters

Californians set to end bilingual education

By Christopher Parkes in Los Angeles

Californians go to vote tomorrow in a mood to disregard the advice of their political and ethnic leaders, and ready to scrap bilingual education, one of the state's many contentious education issues.

If the polls are correct, they will also reaffirm that money cannot buy power – not even for the wealthy candidate in the gubernatorial primary race who has made the most alluring promises for root-and-branch reform of California's failing schools.

If the pundits are right, voters will be more baffled than ever by a ballot sheet laden with the names of dozens of candidates for state, local and federal political and administrative office, plus nine ballot initiatives for new state laws.

The eye-catching Proposition 227, to replace bilingual teaching with English immersion classes for immigrant children, has won wide support from all sections of the community.

In spite of calls for a "no" vote from the leading candidates for governor, most media, teachers' unions and community leaders – most warning against replacing one failed system with an untested "one-size-fits-all" solution – it has won wide support.

The outcome for this year's other big issue, Proposition 226, which would require trade unions to seek permission yearly from members before spending any dues on political causes, has been clouded by a late blast of advertising from both sides.

According to latest estimates, a record $22m has been spent by both sides on an issue which Republican leaders in Washington believe could – if it passes and survives challenges in the court – be a valuable tool for cutting Democrat funding nationwide.

Apart from the sheer volume of names and issues, scope for voter confusion this year has been increased by the debut in the state of the "open" system which will allows voters, regardless of their party affiliation, to vote for any primary election candidate.

Of the four main contenders for the November 3 run-off, Dan Lungren, current attorney general and the only serious Republican contender, is virtually assured of a place in the autumn general election.

Current opinion surveys also suggest he is the candidate most likely to succeed Pete Wilson, the Republican incumbent in the Sacramento governor's office.

Among the three Democrats, recent samplings put Gray Davis, lieutenant governor, in a comfortable lead. Al Checchi, the former co-chairman of Northwest Airlines, who led in the early stages and has set records for campaign spending, had slipped to last place.

Mr Checchi, who spent the last few days touring the state in a yellow school bus, has promised to bring Californian spending on schools up to the national average from its current level near the bottom of the league.

The grandson of Italian immigrants has played heavily on his origins and drawn equally heavily on his fortune, and has in the closing days worked hard to bring out the Latino vote.

Mr Checchi spent more than $35m – much on television commercials attacking his opponents – in a campaign which appeared to have backfired badly among traditional voters.

Kazakh leader gives warning on privatisation

By Charles Clover, Robert Corzine and Carlotta Gall in Almaty

Kazakhstan's President Nursultan Nazarbayev has criticised "mistakes and shortcuts" in his country's big privatisation programme, and warned foreign investors who do not fulfil their contractual obligations that his government "will use all methods to correct the situation".

His remarks on Friday echoed a statement by the prime minister, Nurlan Balgimbayev, who on Wednesday said that while he was not opposed to privatisation in general, he was opposed to "incorrect" privatisations, implying those which were carried out by his predecessor, Akezhan Kashegeldin, who left the post last September.

But Mr Kashegeldin, who began Kazakhstan's privatisation after he came to power in 1994, dismissed such criticism in a separate interview on Friday. Without naming Mr Balgimbayev or Mr Nazarbayev, he said criticism of his privatisation programme was "the remarks of someone who can't figure out what is correct and incorrect".

He in turn issued a vague warning for foreign investors to be wary of "revenge" by a "native oligarchy" of Kazakh entrepreneurs who wanted an excuse to overturn previous privatisation deals so they could gobble up the country's assets.

Starting in 1994, Kazakhstan conducted one of the fastest privatisation programmes in history, selling or leasing 50-75 per cent of the country's productive capacity to foreign investors in only a few years. But the fall-out from the fire sale is just beginning to be felt.

Mr Nazarbayev, in an interview with the Financial Times, was highly critical of past privatisations, saying, "It was inevitable that there will be mistakes and shortcuts", though he was careful to say Kazakhstan was not disenchanted with privatisation "as an important component of economic reform".

Without naming names, he said enterprises had been sold to unproven investors, some of whom he accused of attempting to get out of investment pledges, and using "cunning ruses" such as transfer pricing and offshore bank accounts to evade taxes.

"We cannot reconcile ourselves with these facts, and will use all methods to correct the situation," he said.

Last month, Mr Balgimbayev, the former oil minister who opposed the privatisation of the oil industry during his tenure, drew up a list of several privatisations

'A native oligarchy has arisen, and they wish to take revenge'

that the government is reviewing for non-compliance.

These include the Shymkent oil refinery, sold to Kazvit Holdings in 1996, the Yuzhneftegas oil company, sold to Canada's Hurricane Hydrocarbons in 1996, the copper plant Dzheskazgansvetmet, sold to the South Korean company Samsung, also in 1996, and the Pavlodar oil refinery, leased to US-registered CCL Oil in last year.

But some experts are not convinced that Kazakhstan's government is simply trying to correct mistakes and defend itself against foreign tricksters.

Mr Kashegeldin accused Mr Balgimbayev of representing local Kazakh businessmen who were bitter at being unable to compete, for lack of funds, with foreign investors during the country's privatisation.

He accused the businessmen of using non-compliance as a pretext to push foreign investors out of lucrative local enterprises.

"This has already become a battle," he said. "A native oligarchy has arisen, and they wish to take revenge, to reclaim property."

Mixed reviews for African bank's summit

By Hugo Plowden in Abidjan

The African Development Bank (ADB) will rededicate itself to the task of poverty alleviation and wealth creation after an annual summit described by Omar Kabbaj, its president, as "a milestone in the history of the institution".

He singled out for praise the final, formal agreement for a 35 per cent increase in the bank's capital base to $30bn, saying it would improve external confidence in the ADB and allow it to develop new loan products, promote debt relief and consider new project support programmes. Associated negotiations increasing the stake held by non-regional members of the bank, such as the US and Britain, from one third to 40 per cent, have however proved more controversial.

A number of delegates from the continent's smallest and largest economies alike complain that bank officials have been too keen to side with western powers in elevating commercial imperatives over development priorities. "The bank management is African, but we, as African members, are not getting support from them," argued Nigeria's finance minister, Anthony Ani.

"We seem to hear more about credit ratings than development assistance. This is difficult and disappointing."

Bank officials acknowledge the special needs facing some of the continent's most impoverished nations, but have failed to offer concrete support, provoking anger from delegates from war-ravaged nations such as Liberia, Sierra Leone and Rwanda.

"As an African institution, one would have expected to see the bank playing a leading role in mobilising donor support, both in the provision of resources and debt relief," noted Liberia's finance minister, Elie E. Saleebya. "Instead, the bank has failed Liberia and other post-conflict African countries."

It was a view shared by South Africa, an increasingly important participant in the ADB, which increased its shareholder from 1 to 6 per cent this year. The bank has already been persuaded to introduce rand-denominated loans and hopes to close a R750m ($150m) deal financing infrastructure service projects in Southern Africa by August.

The deputy finance minister, Gill Marcus – one of the very few women among the sombre-suited gentlemen of a certain age making up the majority of the 1,336 delegates in Abidjan – further called for a revision of bank

'Recovery is encouraging, but the process remains fragile'

articles which deny voting rights to African members of the ADB concessional loan facility, the African Development Fund (ADF).

Officials fear such high-profile discord will fuel an image of the bank as a perennially divided talking-shop, dominated by politics more than development. They complain that it overshadows a positive debate on the lessons to be learned from the financial crisis in Asia and the challenges of monetary union in Europe, in a pre-summit symposium on the prospects for regional integration.

"If these countries don't act quickly, globalisation will leave all but the richest increasingly marginalised," warned one of the many private sector bankers from Europe, North America and Africa drumming up business on the fringes of the meeting.

In his closing remarks, Mr Kabbaj brushed aside criticism of the bank, saying it had made immense progress on matters such as institutional reforms. "The continent's economic recovery is encouraging, but the process remains fragile," he conceded.

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OUTPUT DROPS MEASURES MAY BE NEEDED

Alarm grows in Malaysia on economy

By Sheila McNulty in Kuala Lumpur

Malaysian economic activity contracted by 1.8 per cent in the first quarter compared with a year earlier – in sharp contrast to growth of 6.9 per cent year-on-year in the fourth quarter last year, the government announced at the weekend. It was first the quarterly decline since the mid-1980s.

Although the government stuck to its forecast of 2-3 per cent growth for 1998, economists project a contraction of between 2 and 4 per cent and said the authorities would be forced to introduce measures to ease the economic problems.

Economists were most taken aback by the size of the fall in construction activity, which dropped 10 per cent in contrast with 6 per cent growth in the last quarter of 1997 as infrastructure work slowed and new projects were deferred. Applications to the ministry of international trade and industry to establish manufacturing projects fell 69.3 per cent in value terms in the first quarter, against a fall of 12.5 per cent in the preceding period.

Corporate leaders complain the administration appears paralysed by indecision. Some fear difficult measures may be delayed for fear of a political backlash.

The National Economic Action Council, which was set up to guide the country through the Asian crisis, has not taken any significant action. The crux of the problem is a banking system whose ratio of domestic credit to gross domestic product is about 170 per cent, the highest in south-east Asia. As the economy slows, unpaid loans are mounting, putting pressure on financial institutions.

Many have stopped lending. High interest rates have deterred those who might still obtain financing.

"People are being starved for credit," says Neil Saker, head of regional economic research at SG Securities.

Many economists consider permitting more foreign participation in the economy the best way to recapitalise the banking system. But the leadership shies away from such a politically unpopular decision, particularly as it continues to blame foreigners for the crisis.

Paul Alapat, senior economist at Indosuez WI Carr Securities, says while lower interest rates would help sectors with large domestic debt, it could weaken the ringgit. Economists warn that even if the sharp slowdown forces Malaysia to permit more foreign participation, confidence in the country has been damaged and it will be difficult to convince investors to return.

Indian markets hope for a bold budget

By Krishna Guha and Amy Louise Kazmin in Delhi

India's strategy to combat economic sanctions imposed following its recent nuclear tests will become apparent today, when Yashwant Sinha, finance minister, announces his government's first budget.

There is speculation that Mr Sinha will capitalise on the sense of crisis to cut subsidies and increase public spending on infrastructure in an effort to boost industrial growth.

Economists agree that urgent action is needed to reverse the decline in India's growth rate, which fell to 5 per cent last year from more than 7 per cent in the three previous years.

Mr Sinha is likely to offer concessions to domestic business – which could include tariff rises to protect companies worst hit by foreign competition. He is also expected to announce incentives to encourage Indians to save, and may offer speedy approvals to foreign investors in infrastructure sectors.

Mr Sinha is not free to act as he wishes. Today's budget will be constrained by a high budget deficit, commitments to the World Trade Organisation and union resistance to privatisation.

But India's markets believe it will be a bold budget nonetheless. This reflects a belief that the nuclear tests have changed the political equation in Delhi. The ruling Bharatiya Janata party (BJP) – which governs in an unstable coalition – is now in a much stronger position to take decisive action.

"At this moment it's advantage BJP," said political analyst Mahesh Rangarajan, a fellow at the Nehru Memorial Museum. The BJP, which failed to win an outright majority in elections in March, can still be ousted from power. But while it remains so popular opponents cannot afford to risk new polls. "There is a window of opportunity," said Mohan Guruswamy, a senior BJP adviser.

There is evidence that the government intends to employ the political capital from the nuclear tests. Ministers have already announced plans to reform land laws and raise passenger fares on India's railways. "They have got a once in a decade opportunity," says Surjit Bhalla, a liberal economist.

BJP strategists say sanctions make it easier to act. "It makes it easy for us to take tough and unpopular decisions," said Mr Guruswamy. He added: "It will not be a dream budget. It could be a nightmare budget."

Government and public sector companies would have to trim their spending, said Jay Dubashi, head of the BJP's economic cell. "It is a time for belt-tightening."

Foreign investors – still reeling from the nuclear tests – see a slim ray of hope. Since the tests India has approved long-delayed projects in power and announced new opportunities to invest in ports. Today may see new "single window approvals" in infrastructure.

But there is a difference between processing infrastructure projects quickly and opening up the rest of the economy to foreign competition. Even if there is action on state finances, foreign investors may find the budget has little immediately to offer them.

As late as last week senior ministers were debating whether the budget should include steps to open further in areas such as insurance – regarded as a litmus test of attitudes to foreign investment.

Yashwant Sinha, India's finance minister, packing away his budget papers yesterday Reuters

The insurance regulatory bill was recently pulled from the parliamentary timetable after some BJP leaders objected to provisions which would have allowed foreign insurers to form joint ventures.

Many BJP members remain deeply suspicious of unregulated capital flows and multinational companies. "We are different from the west. We will go our own way," said Mr Dubashi.

There is a determination to "reform the reforms" conducted by previous administrations – though the implications of this are not clear. It is possible that the budget may be pro-business, rather than pro-liberalisation.

While the budget will include asset sales, privatisation is likely to play second fiddle to plans for greater autonomy for public sector enterprises.

Whatever programme Mr Sinha adopts, the government has a rare opportunity to push it through. But political analysts caution that public opinion is fickle. Just a year after Indira Gandhi conducted India's hugely popular first nuclear test, she was forced to impose emergency rule to quell an upsurge of opposition.

If the budget disappoints, the damage caused by sanctions may come home to roost. "We have learnt from the example of President Bush," said Mr Guruswamy - citing the US president whose popularity soared during the Gulf war but who lost an election to Bill Clinton with a campaign motto: "It's the economy, stupid."

Foreign companies need to make new friends in post-Suharto Indonesia

Links to the former president and his web of patronage once held the key to success but now they have become a curse, write **Gwen Robinson** and **Sander Thoenes**

For decades, the irresistible power of the "sacred letter" struck fear in the hearts of the country's bureaucrats, bankers and regional governors.

Bearing insignias of high office, the missives were key to trillions of rupiah worth of lucrative government contracts, concessions and bank loans which went to companies run by the family and friends of the former President Suharto.

The suggestions were always delicately worded, according to some former recipients. But the bald message was unmistakeable: "Yes, those letters... they would say things like: 'It is highly recommendable you give this loan to such and such...'," recalled a banker at one of Indonesia's largest commercial banks.

"To a regional governor, they might say something like, 'It is advisable to award the contract to this or that company...'. Of course, the annointed company was always connected with the president [Suharto], and it would always get the loan or the contract."

This cult of coercive collusion helped Mr Suharto's family and close associates develop vast business empires spanning almost every sector from power generation to telecommunications.

The Suharto way of enriching family and friends was different from the methods employed by other leaders accused of self-enrichment. "The Suhartos were integral to the founding and subsequent management of many of their companies, whereas the Marcos family [of the Philippines] restricted itself to large, passive shareholdings in Philippine blue chips as well as gold and cash kept overseas," noted Michael Backman, author of a study on Asian corporate governance.

For hapless foreign investors, this web of patronage held the key to success in Indonesia. The list of those who succeeded is a "who's who" of international business including BP, PowerGen and British Gas of the UK, Mitsui, Itochu and Marubeni of Japan, General Electric and Edison International of the US, and Siemens of Germany.

In some cases, particularly those involving Japanese trading houses, foreign companies guaranteed massive bank loans for the funding of large infrastructure projects, many directly linked to Mr Suharto's children.

Now, just 10 days into the post-Suharto era, those links have become a curse. Within days of Mr Suharto's resignation, Thames Water of the UK and Lyonnaise des Eaux of France became the first examples of the fate likely to befall some of the foreign partners, with the abrupt cancellation of a $140m water supply contract with the Jakarta authorities.

The reason the contract was cancelled was the very reason the companies won it in the first place: the two consortia were headed by companies owned by Mr Suharto's oldest son, Sigit Hardjojudanto, and Sudono Salim, a close associate of the former president and head of the Salim group of companies. There were no public tenders.

The case has spread terror through the expatriate business community in Jakarta. "We saw the beginnings of the backlash with Thames Water and since then, everyone's jumped on the bandwagon," said James Bryson, head of equity sales at ANZ Securities in Jakarta. "The mob wants blood, but where do you draw the line and how many others will they drag down with them?"

There are growing calls for investigations, sequestration and even trials for Mr Suharto, his family and his associates. But cutting "crony companies" out of a system in which they are entrenched will not be easy, Mr Backman says. In Indonesia alone, he identified nearly 1,250 separate active companies in which Suharto family members had significant shares, and at least 44 western companies in direct partnership with Suharto family interests.

If there were any official moves against Suharto assets, the biggest backlash would be against the economy. At a time when the country is in desperate need of foreign investment, further project cancellations or talk of investigations would almost certainly scare off any potential investors.

Some critics, such as Frans Seda, a former economics minister, have suggested a Philippine-style government body to conduct a probe and deal with complaints. "It has to be done, to meet the people's need for justice... the sooner the better and then we can say: Stop, people, we have a committee to deal with it."

For Mr Habibie, whose business interests thrived under the Suharto regime, the calls present an excruciating dilemma and he rejected Mr Seda's suggestion. "He does not like to stir up history," said Mr Seda.

Suicide rate up as Japanese troubles grow

By Gillian Tett in Tokyo

The suicide rate in some Japanese regions has risen sharply as unemployment has grown and the economy stagnates. Police data reveal that the number of suicides in the northern island of Hokkaido and central districts of Osaka and Fukui were up an annual 50 per cent or more between January and March.

The National Police Agency refuses to comment on the rise but some officials privately suspect that the increase could be a consequence of the economic malaise. "Unemployment is rising fast. Middle-aged men are losing their jobs and there are a lot of bankruptcies because of the [banks'] credit crunch," a police official says.

Unemployment reached a record high of 4.1 per cent in April, according to government figures published on Friday. Meanwhile, bankruptcies rose 26 per cent in the year to April, partly because banks are now reducing loans to borrowers.

A series of high-profile suicides in the business world are illustrative. Earlier this year, the heads of three car component companies killed themselves simultaneously. In their suicide notes they stipulated that payments from their life insurance policies should be used to repay corporate debts.

It is not clear whether the trend seen in regions such as Hokkaido is echoed across the entire country, because national data will not be available for 18 months. The most recent national suicide figures show that in 1996 the suicide rate rose 2.9 per cent to 23,104.

The Hokkaido police department says there were 382 suicides between January and March this year, an annual increase of 58 per cent. In Fukui, a small rural region in central Japan, there were 89 suicides, a 59 per cent annual increase. In Saitama, a commuter area near Tokyo, there were 365 suicides, 28 per cent up on the year.

Some of these regions, such as Hokkaido, a depressed region heavily dependent on public spending, faces particularly severe economic problems. Tetsura Segiura, an economist with Fuji bank, says: "The collapse of Hokkaido Takushoku bank [last November] has caused a lot of company failures and problems in Hokkaido."

Japan's system for dealing with corporate bankruptcy may also be fuelling the rate, say counsellors. In Japan, unlike many other countries, life insurance claims are paid even after a suicide.

Akio Mikuni, head of Mikuni credit rating agency, says: "In Japan, when a company executive takes out a loan from the bank, the bank wants guarantees from relatives. So if the company collapses there are a lot of people affected – it is not like the US where just the shareholders lose out."

Some observers fear that the rate could rise further in the coming months, particularly in troubled sectors such as construction.

Additional reporting by Nobuko Juji and Mitsuko Matsutani

Boost for HK property but nervous days ahead

By John Ridding in Hong Kong

A Hong Kong residential housing project with more than 1,000 apartments was sold out on Saturday, in the first property sale since the government announced measures to support the sliding economy.

The rush for apartments was seen as a boost for the territory's battered property market, which has seen prices fall by more than 30 per cent since their peak last year. But economists and fund managers expressed concerns about the government's emergency measures, and investors are braced for a turbulent week following Friday's announcement that economic output fell in the first quarter of the year.

"We have real concerns that the government is obstructing the adjustment of the economy and the restoration of competitiveness," said the head of research at one investment bank. "Property prices in Hong Kong are still very high." Concerns were compounded by signs of property speculators at Saturday's sale.

At the sale, the average apartment price was HK$4,147 (US$535) per square foot, with apartments ranging from 650 square feet to 850 square feet. The price represents a sharp fall from the middle of last year, when apartments in the same Tsing Yi district fetched HK$7,500 per square foot. But the price was still high by regional and international standards.

After announcing on Friday a 2 per cent fall in economic output in the first quarter, the first decline since 1985, the government unveiled seven measures to bolster confidence and support the economy. These included the suspension of rules which had been introduced to curb property speculation, such as a ban on the re-sale of uncompleted apartments and limits on pre-sales to companies.

Announcing the measures, the government said the rules would be introduced if speculation re-emerged. But Tung Chee-hwa, the chief executive, said the priority was to stabilise property prices and avoid damage to the territory's banks. In addition to the property measures, the stimulus package included steps to improve liquidity in the banking system and to boost the tourist sector.

Growing public concern over the fall in real estate prices was demonstrated yesterday when 300 property owners, who had bought apartments at the peak of the market last year, marched on the main government office to demand financial assistance. Albert Chan, a member of the Democratic party and an organiser of the protest, said developers and banks should arrange interest-free loans to ease the pressure on troubled property owners.

Demonstrators at a Hong Kong rally held yesterday to mark the deaths in 1989 when a pro-democracy protest in Beijing's Tiananmen Square was suppressed AP

Li Ka-shing, the Hong Kong tycoon and the developer behind Saturday's sale, welcomed the government's stimulus package. "I think it is quite good, it helps things a lot," said Mr Li. But critics accused the government of supporting developers rather than focusing on the need to ensure competitiveness. "This sends a bad signal," said one fund manager.

Arguments against devaluation carry weight in Beijing

China is under pressure but many think it is unlikely to devalue the renminbi unless conditions alter, writes **James Kynge**

Pressure on China to devalue its currency is intensifying.

The weakness of the Japanese economy, which last week recorded its highest jobless rate since records began in 1953, is undermining the yen. Hong Kong posted a 2 per cent decline in first-quarter gross domestic product, fuelling concerns over pressure on the Hong Kong dollar's peg to the US dollar, the linchpin of the territory's financial system.

Despite the bad news abroad and gathering gloom at home, a cross-section of Chinese officials, economists and commentators believe that China is unlikely to devalue unless certain key conditions alter.

Economically, Chinese economists say it does not make sense to devalue if such an action would merely cause a chain reaction of competitive currency depreciations throughout Asia.

"This would only compound Asia's economic problems and worsen the impact on China from the Asian crisis," said one senior Chinese banker. "If there is to be a devaluation, it would have to take place after the Asian storm has blown over."

Bernd Stecher, chief economist at Siemens, one of China's biggest foreign investors, said that a devaluation could slow the inflow of foreign investment because it may raise the currency risk premium associated with funding Chinese projects.

It would also apply more pressure on the Hong Kong dollar to be devalued, thereby risking further falls on the territory's stock market. Many Chinese companies are listed on the Hong Kong stock market, which is a key source of finance for mainland companies undergoing restructuring.

The Financial News, an official newspaper, said this week a devaluation could frustrate a new trend of investing in the impoverished inland areas of China to make use of cheaper labour. The government is encouraging this trend because the economic slowdown – and therefore the potential for unrest – is most pronounced in China's hinterland.

Politically, a devaluation would raise important problems both at home and abroad. Zhu Rongji, China's premier, has ruled out devaluation. In a live televised news conference in March that set the tone for his premiership, he identified "no devaluation" as a central part of his promise to the nation.

Chinese leaders have reneged on promises in the past, but Mr Zhu is regarded as the driving force in a no-nonsense, "new generation" leadership which means what it says.

Any devaluation in the medium term would shake Mr Zhu's credibility and could threaten momentum in other areas of an ambitious plan to reform state-owned enterprises, the banking system and an overstaffed bureaucracy.

Internationally, China has turned its stance against devaluation to its advantage. It is being consulted by the US on many more issues of economic and political importance, Chinese officials said. Japan's fumbling attempts to stimulate its economy and the malaise elsewhere in Asia has cast China in the light of a regional leader.

"China's new generation of leaders want to use this opportunity to show the world that it can play a responsible role," said Qu Hongbin, research manager at Dresdner Kleinwort Benson in Hong Kong.

Such responsibility, Beijing hopes, may help it enter the World Trade Organisation on concessionary terms. President Bill Clinton is expected to make a statement on the WTO during his summit meeting with Jiang Zemin, China's president, this month. But set against the arguments against devaluation are the real strains imposed by China's swiftly slowing economy.

Export growth, which contributed about 20 per cent of GDP growth last year, slowed to 7.9 per cent in April from over 20 per cent for the whole of 1997.

Foreign investment is falling. Price deflation is deepening as consumer demand slides and unemployment surges. If this trend drags GDP growth to below 5 per cent – from 8.8 per cent last year – could China be forced to devalue?

Denis Simon, general manager of Andersen Consulting in Beijing, said that a modest devaluation of about 10 per cent was possible early next year. But, he added, this would take place only if Chinese policymakers felt confident that an Asian economic recovery was under way and robust enough to withstand a renminbi depreciation.

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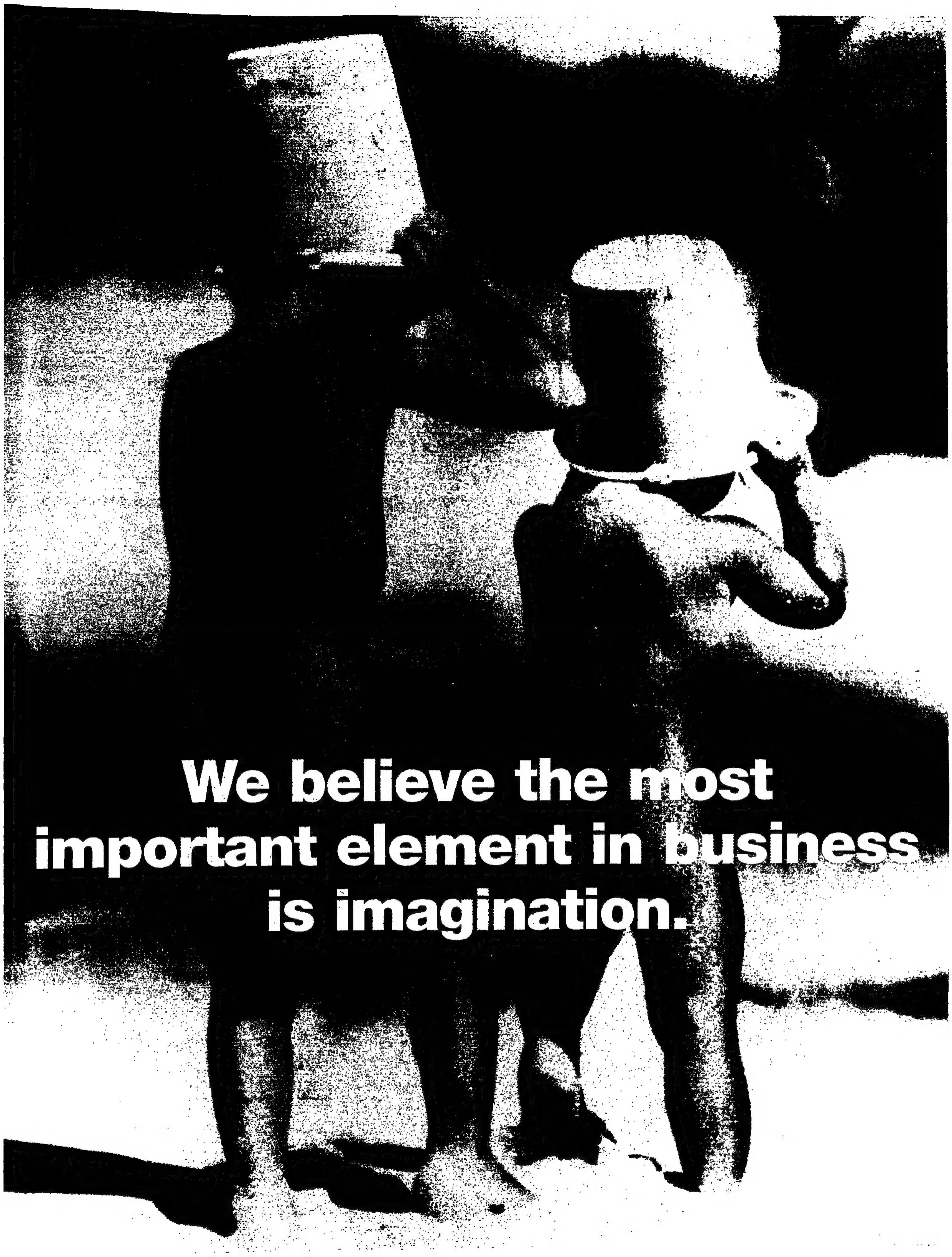


CORPORATE RESCUE UK PROFESSIONALS TAKE LEADING ROLE IN AIDING REGION'S STRICKEN ECONOMIES

Asia seeks insolvency expertise

By Jim Kelly, Accountancy Correspondent

More than 120 of the UK's leading experts in company rescue – up to 10 per cent of the senior insolvency profession – are working in the stricken economies of south-east Asia on behalf of international banking syndicates and financial regulators.

The confidential assignments, representing an investment of up to £150m ($245m) a year in partner and staff time, range from assessing the repercussions of the current crises for developed nations to rescuing companies from failure.

The UK profession has been called on in the light of expertise in cross-border insolvencies such as those of Barings Bank, the business empire of the late Robert Maxwell and the Bank of Credit and Commerce International.

UK-based experts also gained expertise in the early 1990s in rescuing businesses outside formal insolvency procedures such as liquidation or receivership by getting creditor backing for survival plans.

Murdoch McKillop, president of the Society of Practitioners of Insolvency, said: "There's a lot of the UK profession out there. We have learnt a lot about the rescue culture. We've moved a long way from shutting the doors and getting the auctioneers in. We have been able to act as a bridge between the international banking community and local corporates."

Individual firms refuse to divulge their corporate recovery commitments in south-east Asia, but the Big Six accountancy firms are understood to have had up to 800 staff on the ground over the past six to nine months, including legal back-up from London-based firms.

Most of the Big Six have allocated senior insolvency experts, who normally manage insolvency or corporate recovery departments, to work in south-east Asia. They rely on local staff and partners allocated from the US and Australia.

Initially, high-level work in the region was backed by financial regulators – understood to include the Bank of England and the International Monetary Fund. They wanted to assess the risks of systemic failure spreading from the region's economies.

The insolvency experts are begining to pick up specific corporate rescue work, particularly in Thailand, as businesses struggle with bad debts, dollar-denominated borrowings, and sharply contracting local demand.

The profession expects more work as companies that have so far survived on operating cashflow turn to overseas banks for new money, and when the currency situation in south-east Asia stabilises.

Treasury ministers may reverse tax breaks proposal

Treasury ministers are on the verge of reversing strict limits on tax breaks for investing in small companies after the London Stock Exchange warned that its junior market could be damaged by the plan, **James Mackintosh writes.** The plan was to limit reinvestment relief to companies with net assets of less of £10m ($16m) issuing new shares. After lobbying from the stock exchange, the Alternative Investment Market and affected companies, ministers confirmed they were considering the suggestion to raise the limit to £30m-£40m.

CENTRAL BANK SPLITS EMERGE IN MONETARY POLICY TEAM DESPITE REMOVAL OF POLITICAL CONTROL

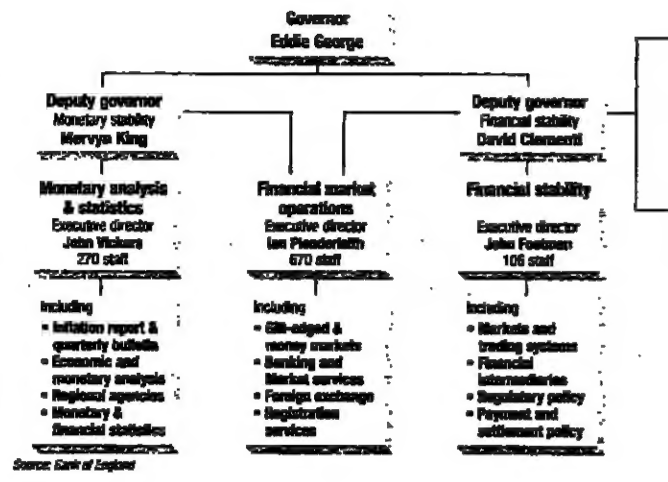
Old Lady relishes return to independence

By Our Economics Staff

The Bank of England from today enjoys *de jure* as well as *de facto* control of UK interest rates.

As well as withdrawing the power to direct the central bank that the government has enjoyed since nationalisation in 1946, the latest legislation revamps the governance of the Bank, reforms its funding and requires it to give an annual report on its activities.

But the big changes have already been in place for a year. Just days after the May 1997 national election, Gordon Brown's first act as chancellor of the exchequer was to take interest rates out of political control.



Source: Bank of England

The chancellor handed them instead to the monetary policy committee – then a new body – whose members are individually accountable for the policy recommendations they make to hit a given inflation target of 2.5 per cent.

Each element – decision-making by committee, political independence, individual accountability and the externally imposed target – is affecting policy outcomes.

Academic evidence suggests that independent central banks typically deliver lower inflation than their politically subservient counterparts, but with no benefit to long-term economic growth. They also tend to preside over deeper recessions and reduce inflation at greater short-term cost to output and employment.

That independent central banks deliver low inflation is hardly surprising. Unlike politicians, unelected experts have no reason to stoke unsustainable booms for short-term political gain.

It is less easy to explain why independent central banks preside over deeper recessions and more painful episodes of disinflation. One explanation might be that they are more likely to make policy by committee.

"Decision-making by committee may contribute to systematic policy errors by inducing the central bank to maintain its policy stance too long," says Alan Blinder, former vice-chairman of the US Federal Reserve.

Committees display inertia in part because they tend to be consensus seeking. It was not reassuring, therefore, to see that every decision of the Bank's monetary policy committee last year was unanimous.

But since then every meeting has produced a split decision. In February and March Eddie George, the governor, had to break a four-four deadlock to leave rates on hold, an outcome unheard of at the Fed.

What remains of the Bank will be slim compared with its predecessors. In 1979 the Bank employed more than 7,000 staff, including the workers at its banknote printing works. The total has nearly halved in 20 years.

Once the transfer of staff to the Financial Services Authority – the new City of London watchdog – is completed, the Bank will be left with about 2,600 staff.

The cut in staff numbers will allow the Bank to consolidate its London-based staff within the headquarters on Threadneedle Street in the City of London.

London accused over arms stance on N Ireland

By Liam Halligan in London

Discontent with the Northern Ireland peace process among Pro-British Unionists grew yesterday as the UK government was charged with "watering down" its tough stance on weapons decommissioning, while Republicans were accused of orchestrating an outbreak of violence which injured 15 policemen.

Mo Mowlam, Northern Ireland secretary in the British government, also came under fire after the leaders of Sinn Féin, the political wing of the Irish Republican Army, snubbed her invitation to attend a Royal garden party in Northern Ireland this week.

David Trimble, Ulster Unionist leader, accused Ms Mowlam of "a serious error of judgment" in asking the Republican leaders to the grounds of Hillsborough Castle, where the Prince of Wales – whose great uncle Lord Mountbatten was murdered in 1979 by the IRA – will be guest of honour.

The UK government gave further signals that legislation enacting the Stormont agreement, due to be introduced in the House of Commons this week, will not set the surrender of arms as a precondition of Sinn Féin representatives sitting on the proposed Northern Ireland executive.

"The bill will go no further than the agreement," said a minister, indicating that after elections to the assembly on June 25, paramilitaries would not need to begin arms handovers before holding executive office.

However, a prominent Unionist who supported the agreement, said: "The prime minister has watered down what he said – yet again, Loyalists are being betrayed by the British government".

NEWS DIGEST

PHARMACEUTICALS

Pfizer picks UK site for European headquarters

Pfizer, the US pharmaceuticals company that manufactures the impotency drug Viagra, is to build a £50m ($82m) UK and European headquarters building near Reigate, 35km south of London, as part of its planned European expansion. The company is seeking planning permission for the 226,000 sq ft campus-type development that will employ about 900 people, mostly in its sales, marketing, medical and business finance divisions.

Ken Moran, chairman and managing director of Pfizer, said he believes the company is the second largest US inward investor in Britain, having committed more than £620m since 1990.

Pfizer's existing main facility is at Sandwich to the south-east of London. This will remain the company's principal manufacturing and research and development site. The new site will be the headquarters for the company's pharmaceutical, animal health and consumer health divisions as well as the information technology headquarters for Pfizer's European information technology division. **Norma Cohen, London**

FINANCIAL SERVICES AUTHORITY

Delay to establishing powers

The Financial Services Authority, the new super-regulator for the City of London, may not be given a formal legal status and tough prosecution powers for another two years in spite of industry fears of a damaging delay.

The FSA begins to police the City today and it had been expected that legislation giving it full powers would be passed in late 1999 – but this could now be delayed well into 2000.

A senior minister said the proposed financial services bill, intended to formalise the merger of a series of City regulators to create the FSA, may not even be put before parliament for 18 months.

"We are aware of the City's fears and we regarded the financial services reform bill as important," said a minister. "But next year's regulatory programme is looking jam-packed and we cannot do everything."

"Delaying the bill may be a little awkward for the City but it is not dangerous," he said. **Robert Peston**

HOTEL INDUSTRY

Room rates rise 15%

Average UK hotel room rates rose by more than 15 per cent last year, with prices in London passing the £100 ($163) threshold for the first time, according to a report by BDO Hospitality Consulting. The average daily room rate for the country as a whole was £63.41 in 1997.

London rates averaged £105.33, more than double the £52.53 average for the rest of England and £52.49 in Scotland. National occupancy rates also rose last year, to 74.3 per cent, compared with 72.6 per cent in 1996.

London hotels had the highest occupancy rate in the country at 83.4 per cent, although that represented a slight drop from the previous year. BDO's consultants predicted that occupancy rates should remain stable over the next two years.

The hotel sector reported a 4.5 per cent rise in gross operating profits (as a percentage of gross revenues) to 40.4 per cent. **Robert Corzine, London**

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY
Abacus Polar 2.2p
Abbey National Funding 6.1% Dual Currency Nts 1999 Y2541.66
Adscene 7.8% Series 2 Cv Prf 3.9p
American General $0.375
Andrews Sykes Cv Prf 3.5p
Automotive Precision 1.1p
Barclays Bank Non-Cum Pref Series C1 $0.4219
Do Series C2 $0.1406
Do Series D1 $0.4313
Do Series D2 $0.1437
Do Units $0.5625
Do Regd Series D Pref Units $0.575
BBA 6¾% Cv Prf 3.375p
Britannia 1p
British Aerospace 2.9275p
Cadbury Schweppes ADR $0.8264
Caradon 7.25p Cv Prf 3.625p
City Centre Restaurants 2.35p
ComputerLand UK 1.1p
Cookson 5.1p
Dalgety 6p
DCS 1.25p
Diageo Finance 9% Bds 2005 £90
Enterprise Oil 10.5p
Fleming Claverhouse Inv 1.45p
Fleming Inc & Capital Inv 1.5p
Do Units 1.5p
Fleming Mercantile Inv 4¼% Deb £2.125
Ford Motor $0.42
Do BDR $0.021
Foreign & Colonial Inv 4¼% Deb £2.125
Genfinance 11.49% Ln 2007 £57.45
Glaxo Wellcome ADR $0.6565
Do 6¾% Nts 2000 $67.50
Govett Oriental Inv 5% Prf 1.75p
Great Portland Estates 9½% Cv Ln 2002 £4.75
Greece 6% Ln 1928 30p;Do 6% Ln 1928 Fdg Bds 1965 75p
Do Natl Mtg 7% Bds £1.25
Hambros Inv 3½% Prf £1.225
Hamleys 7.7p
Hammerson 8.1p
Havelock Europa 7% Bds 2032 2.0712p
Henderson Smllr Cos Inv 4½% Prf 1.575p
Do 10½% Deb 2016 £5.25
Highland Distilleries 2.2p
Inco $0.025
Ingersoll-Rand $0.15
Kirklees Metro Council 11.6% Rd 2031 £5.80
Lands Improvement 3p
Laporte 16.75p
Lavendon 2.8p
Law Debenture 4½% Deb £2.25
Legal & General 8.7p
Lewis (J) 5% Prf 1.75p
Do 7½% Prf 2.625p
Lloyds Bank 9½% Bds 2009 £95
London 2½% £0.625
Do 3% £0.75
MICE 0.14p
Midland Bank 14% Ln 2002/07 £7
Monks Inv 11% Deb 2012 £5.50
Murray Smllr Mkts 4.1% Prf 2.05p
Nash (Wm) 5.3p
Northern Leisure 4.5p
Ocean Group 11.2p
Ontario & Quebec Railway 5% Deb £2.50
Oxford Technology Venture Cap 2.1875p
Rank Group Finance 6¾% Nts 2004 $33.75
Reed Intl 4½% Prf 1.575p
Do 5½% Prf 1.925p
Regal Hotels 0.85p
Sentry Farming 3p
Unilever ADR $0.459
United Assurance 14p
United Overseas 0.76p
War Loan 3½% £1.75
Wilson (Connolly) 4p

TOMORROW
Abbey National Funding 5.8% Nts 2000 Y2416.66
Avonmore Waterford IR£2.65p
Brooks Service 2.7p
BTR 5.6p
BWI 2p
Cassell 1.5p
Clinton Cards 2.25p
GKN ADR $0.3125
Guinness Flight Venture Cap Tst 2p
Nycomed Amersham 17.5p
Do N/V 17.5p
Scholl 5.3p
Telspec 0.1p
Ulster Television 3.2p
VCI 5.5p

WEDNESDAY JUNE 3
Broken Hill Prop A$0.26
Dickie (J) 2.31p
Kvaerner A Nkr7
Do B Nkr7
Mitsui Toatsu Chems 7¼% Bds 1998 Y725000
Murray VCT 1.25p
Nestle Sw Fr35
Pennine AIM VCT II 2.7p
Senior Engineering 2.84p
Singer & Friedlander 3.22p
SmithKline Beecham Capital 7¾% Nts 1998 £77.50
Sumitomo Heavy Inds 3.4% Nts 1998 Y340000
Swan Hill 1.65p
Sweden 10⅝% Nts 1998 C$106.25
United News & Media 6⅛% Bds 2003 £153.125
Yorkshire Water B 0.512314p

THURSDAY JUNE 4
Abbey National Treasury TEC FRN 2006 FFR98.50
Allied Irish Banks Non-Cum Prf $0.259766
Anglo Irish Capital Fdg Series A N/V Prf $0.52
Avis Europe 2.p
Carr's Milling Inds 3p
Christies Intl 4p
Cussins Property 2.94p
Lloyds Bank FRN 1999 £20.71
Pemberstone 2.2p
Thai-Euro Fund $0.45
Wescol 0.8p
Westpac Banking FRN 1999 DM68.97

FRIDAY JUNE 5
Aberforth Split Level Inc 2.45p
Do Units 2.45p
Aegon NV Fl2.31
Boeing $0.14
Boot (H) 6.2p
Bostrom 4.3p
Cairngorm BS Units 30p
Do No1 to No10 3p
EW Fact 1.1p
Export-Import Bank of Japan 5¾% Bds 2008 FFr575
Glynwed Intl 8.8p
Highcroft Inv 4.25p
Jerome Group 2.25p
McInerney IR£1p
Pearson 12p
Pegasus 5p
Pycraft & Arnold 1p
St Ives 3.75p
Sharpe & Fisher 4.2p
Tokyo Electric 11% Nts 2001 £110

SUNDAY JUNE 7
Treasury 8% 2000 £4
Do 7% 2002 £3.50
Do 6½% 2003 £3.1699
Do 8½% 2005 £4.25
Do 7½% 2006 £3.75
Do 7¼% 2007 £3.625
Do 8% 2015 £4
Do 8% 2021 £4
Do 8% 2028 £2.1205
UK Treasury Strips due 7-6-98 £30.375

UK COMPANIES

TODAY
COMPANY MEETINGS:
Kynoch Group, 34A, Walworth Road, Andover, Hampshire, 12.30
Perry Group, 116, Pall Mall, SW, 12.00
Wace Group, 41, Tower Hill, 11.00
BOARD MEETINGS:
Finals:
Columbus Group
FirstGroup
South Staffs Water
Interims:
Ultraframe

TOMORROW
COMPANY MEETINGS:
Bentalls, Guildhall, Kingston upon Thames, Surrey, 11.00
Emerald Energy, City Room, City of London Club, 19, Old Broad Street, EC, 12.00
House of Fraser, QEII Conference Centre, Westminster, SW, 11.00
Swan Hill, Howard Hotel, Temple Place, WC, 12.00
BOARD MEETINGS:
Finals:
De La Rue
Filofax Group
National Grid
Oxford Instruments
Siebe
Thames Water
Vocalis Group
Vodafone
Interims:
Apollo Metals
Character Group
Eurocamp
Landround
MEPC
Usher of Trowbridge

WEDNESDAY JUNE 3
COMPANY MEETINGS:
Arlen, Exchange House, Primrose Street, EC, 12.00
Bilston & Battersea Enamels, Barton Park, Mount Pleasant, Bilston, West Midlands, 11.00
Booker, Grosvenor Thistle Hotel, Buckingham Palace Rd, SW, 2.30
Chiroscience, Cafe Royal, 68, Regent Street, W, 11.00
Havelock Europa, Mossway, Hillend Industrial Park, Dalgety Bay, Fife, 12.30
London & Assoc Properties, 8-10, New Fetter Lane, EC, 12.00
Radamec Group, City of London Club, 19 Old Broad St, EC, 12.00
BOARD MEETINGS:
Finals:
Bristol United Press
Caffyns
Evans of Leeds
Shanks & McEwen
Victoria
Interims:
Asset Management
Blick
Heal's
Lookers
Morland
NFC
Premier Asset Mgmt

THURSDAY JUNE 4
COMPANY MEETINGS:
Acorn Group, Cromwell Room, University Arms Hotel, Regent Street, Cambridge, 3.00
EW Fact, 179-191, Borough High Street, SE, 12.00
Hewden-Stuart, Cambridge Suite, Glasgow Thistle Hotel, Cambridge Street, 12.00
Parity, Armourers' Hall, 81, Coleman Street, EC, 11.00
Spring Ram, Holiday Inn, Wellington Street, Leeds, 12.00
Tilbury Douglas, Barber Surgeons' Hall, Monkwell Sq, EC, 10.00
BOARD MEETINGS:
Finals:
3i Group
Airsprung Furniture
Boots
BTG
Capital Gearing Trust
Luminar
Powell Duffryn
Sedgemoor
Solvera
Southern Electric
Interims:
Guinness Flight Extra Inc

FRIDAY JUNE 5
COMPANY MEETINGS:
Blue Circle, Four Seasons Hotel, Hamilton Place, Park Lane, W, 12.00
Costain Group, Ironmongers' Hall, Shaftesbury Place, Barbican, EC, 12.00
MetalTech, KPMG Audit Plc, 2, Cornwall St, Birmingham, 10.00
Taylor Woodrow, Telford Theatre, 1, Great George Street, Westminster, SW, 11.30
Templeton Latin America Inv, Plaisterers' Hall, 1, London Wall, EC, 10.00
BOARD MEETINGS:
Finals:
Bandt

Company meetings are annual general meetings unless stated.
Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not comprehensive since companies are not obliged to notify the Stock Exchange of imminent announcements.

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INSIDE TRACK

LUCY KELLAWAY

Nuttiness takes on super-crazy forms

Patrick Kelly runs a company where lorry drivers call themselves CEOs. Alarmingly, his approach seems to be successful

Imagine a company where the truck drivers have CEO printed on their cards. Where there are no managers. Where leadership courses include readings from Plato and Dostoyevsky. Where workers can fire their bosses. Where everyone carries plastic cards with the company's top 20 values on them. Where fun is compulsory and where staff are encouraged to make paper aircraft out of memos.

Add one "super-crazy" guy called Patrick Kelly, and you have PSS/World Medical, a US supplier of loo rolls and medical bits and pieces to family doctors.

And now, if you are crazy enough to try it, you too can create a company just like Kelly's. He has just written a book called *Faster Company: Building the World's Nuttiest Turn-on-a-Dime Home-Grown Billion-Dollar Business* to tell you how. Judging by his picture on the cover, the first thing you need to do is buy yourself a skateboard. Once you've done that there is no limit to how far you can go.

For instance, here is how Kelly makes sure that all branches of his company are all pulling together. He pays them a visit out of the blue, shouting "Blue Ribbon Day" and proceeds to give an inspection. If any keen employee asks a question, he gives them $2; anyone who can correctly answer one of his questions about the company gets $20. It's a great game and apparently employees all start whooping and hollering the minute he turns up.

The really alarming thing about all this self-conscious nuttiness is that it seems to work. The company, which is just 15 years old, is growing at 50 per cent a year.

Still, I'm sure there has to be a catch. These ideas do not just offend against our culture (we don't do nuttiness well on this side of the Atlantic): they offend against the world as it is. If you are a truck driver, you cannot be the CEO by any stretch of the imagination. And if you think you are, you must be so stupid that it is just as well you are only driving a truck.

Let's be sensible, I said to Mr Kelly when we spoke on the phone last week, the driver is not *really* the CEO. "Sure he is!" Mr Kelly said. "If he is facing the customer, then he's the CEO!"

However, the shares have not done so well recently. Since the book came out PSS has spent $600m buying a company that has subsequently restated its accounts, as a result of which PSS shares have fallen by more than half. And how does Mr Kelly feel about that? Oh, he says cheerfully, "we don't worry about the short term here". Doubtless Plato would back him up on that.

* * *

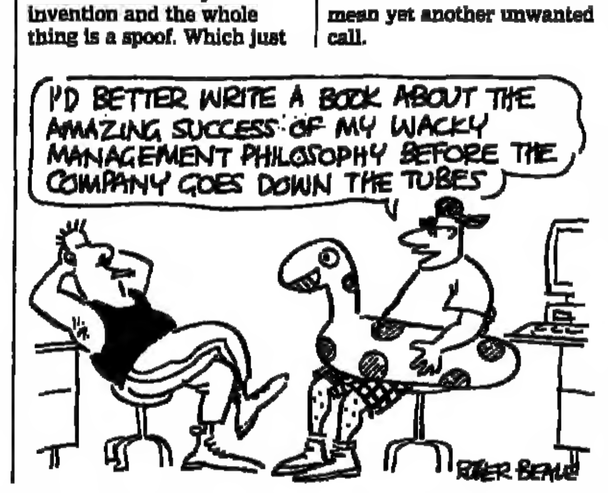
I was even less successful in my attempt last week to communicate with another nutty writer of a US business book: Brother Ty. This ex-alcoholic ex-Wall Street trader-turned-monk has written a book called *God Is My Broker: A Monk-Tycoon Reveals the 7½ Laws of Spiritual and Financial Growth*. The publicity material tells how, on becoming a monk, Brother Ty used his faith and his financial skills to re-engineer the monastery. Fascinating, I thought, and rang to ask if I could interview him. That would be difficult, said the PR woman. Brother Ty is an invention and the whole thing is a spoof. Which just goes to prove that writing about management and having a sense of irony are not compatible.

* * *

The other day my husband took the car down to Kwik Fit for some new tyres. He did not discuss the experience afterwards, probably because there was nothing to say about it. He wanted new tyres and got them. Presumably the service was adequate, the price acceptable; the whole thing a boring task satisfactorily accomplished.

Yet the follow-up has been something else. Three times last week the phone has gone – in the middle of *ER*, or just as I was sitting down to dinner – and it was Gary/Julie from Kwik Fit wanting a chat about the service. Each time I explained that my husband was not at home, that the tyres were perfectly OK, and maybe we could leave it at that. But the following night another zealous employee called, determined to get feedback at any price.

This is customer care gone mad. I realise companies like to know what their customers think of them. But feedback can be overrated. There is surely no mystery to what people want – a good price, fast and polite service. A company that concentrates on giving its customers that, and then leaving them alone afterwards would probably prosper. And as far as Kwik Fit goes, I would suggest it starts doing some feedback on the feedback – were it not for the fact that it would mean yet another unwanted call.



INTERVIEW FERDINAND PIËCH

Mellowing rottweiler still has his bite

The VW chairman has not relaxed despite his successes, finds **Haig Simonian**

Ferdinand Piëch maintains, maybe even relishes, his reputation as the rottweiler of the motor industry. A domineering style, uncompromising attention to detail and all-embracing involvement in management have given him an independence shared by few car bosses.

Now, however, in his second term as chairman of Volkswagen, Europe's biggest carmaker, Mr Piëch has mellowed. The managerial sackings that marked his early years have become less frequent. Relations with the unions are stable. And VW itself is doing rather well. Has the rottweiler gone soft?

There are still enough of those tell-tale stares or occasional, slightly threatening, pauses to suggest Mr Piëch remains on form. But with VW on an unprecedented product blitz, with one new model a month from now until the end of next year, it may just be that his spin doctors have advised a softer touch.

On home ground in his office in Wolfsburg, placed panoramically above VW's vast plant, Mr Piëch remains his charming, if slightly sinister, self. Errors, he reminds his listeners, are not tolerated. "There is one simple rule here. Everyone knows it. Either we are in the black, or there are new faces."

Only when an operation slips into loss because of circumstances beyond human control are exceptions allowed, he explains. So, for example, the team in Mexico had three years to put things right when VW's big operations plunged into difficulties after the mid-1990s Tequila crisis. "We allow three years where there is no internal human blame."

But even such typically Piëch threats are now being delivered with the trace of a smile. For under its current chairman, VW is firing on all cylinders.

The image is appropriate: Mr Piëch's fascination with hugely powerful multi-cylinder engines has captured the motoring press's imagination. After unveiling a V12 last October, the company is working on an 18 cylinder – the first such monster since the legendary racing engines of the 1930s. Within the core VW brand, manufacturing predominantly in high-cost Germany, it is no longer overmanning and appalling productivity that are the problems, but shortages. Waiting lists for the Passat, launched in September 1996, and the new Golf, launched last October, stretch to six months.

Demand is even stronger at Audi, VW's executive carmaker. After building a record 558,000 vehicles last year, output has reached its ceiling. Audi may squeeze out a few extra this year but customers face lengthy delays for the new A3 and A6. Waiting lists for the eye-catching new TT coupé, due around December, will be even longer.

Even Seat and Skoda, previously VW's loss-makers, are now earning. Skoda in the Czech Republic made a record 357,000 cars last year and cannot build its new Octavia fast enough. The company is "our biggest reserve [of potential]", says Mr Piëch.

Seat in Spain, which he once allegedly threatened to close, also draws kind words. Output has surged on revised models, while earnings should rise with the October launch of the new Toledo, the first in a series of striking cars styled to emphasise Seat's Mediterranean origins.

Nothing underlines VW's recovery from deep losses in the early 1990s better, however, than its acquisitiveness. Mr Piëch should discover this week whether his company's £430m bid for Rolls-Royce Motor Cars has been successful. Irrespective of whether he wins the UK marque, he is interested in two other famous luxury car brands to stretch VW's range from super-frugal city cars capable of driving 100km on just three litres of fuel to DM1m (£350,000) luxury barges.

Yet in spite of such achievements, he is still not content. "I am happy with the direction. But there is still very much more to do. By the end of this year, we will have done 50 per cent. The rest is still open."

The progress has come largely through the "platform strategy" Mr Piëch introduced as chairman in 1993. That means building the maximum number of different looking cars from the smallest possible number of basic engineering structures, called platforms. While every carmaker now cherishes similar plans, Mr Piëch was a pioneer with the goal of cutting VW group platforms from 16 to four.

The launch of the new Golf – VW's biggest seller – means about 50 per cent of group output will be based on platforms by December. The pay-off has been massive savings in product development and components. Development is faster, as cars can be launched relatively quickly once the basic platform is established. And components become cheaper as the new vehicles share many parts, letting VW negotiate big discounts for huge orders.

That has been translated into soaring earnings. Group net profits doubled to DM1.36bn last year. In the first three months of this year, they doubled again to DM345m, compared with the first quarter of 1997.

While that is impressive considering VW's tarnished past, profitability remains poor in relation to last year's massive sales of DM113bn. Mr Piëch says profits will climb. "Only 30 per cent of our models will be based on platforms by the end of this year. By the end of 2000, that will be 90 per cent." Many models, including big sellers such as the Polo and VW's entire South American range, which alone accounts for about 20 per cent of sales, are still not platform-based.

Even in the key Golf class – the biggest segment of Europe's car market – VW has launched only five of the 12 cars to be built on its mid-sized A platform by 2000. Although the rate of profits growth will slow, "there is still some way to go".

The product blitz, reinforced by Mr Piëch's personal crusade for better quality and value for money, is reflected in the showroom. In April, the group took 19.1 per cent of west European car sales – a record. In the first quarter, its 17.4 per cent share was a full 5 percentage points ahead of Fiat, its nearest rival. Might such dominance force competitors to consolidate?

Mr Piëch believes consolidation is inevitable. He congratulates Jürgen Schrempp, chairman of rival Daimler-Benz, on merging with Chrysler. "I expected something like that, but not so fast. I wish him well."

Yet Mr Piëch does not believe DaimlerChrysler will prompt more mergers. "The takeover candidates aren't aware of their problems yet." The crunch in Europe will not come until the next downturn. With a current market of about 13m units, "no one really has to react, everyone can still make money".

By contrast, the next down-cycle will expose the weakest players, which Mr Piëch believes are focused predominantly on Europe. "They live dangerously." The survivors will be companies that are sufficiently diversified in market and product terms to ride out regional swings.

That sounds rather like VW. Mr Piëch, however, is still not entirely satisfied with its structure. Filling out the luxury end will help, but his biggest focus is on trucks. Light commercial vehicles have been reorganised into VW's "fifth brand" in Europe, alongside its four car subsidiaries. In Brazil, it even builds bigger trucks and buses. But its operation still lacks coherence and is far from global.

Observers believe Mr Piëch would like to buy MAN Nutzfahrzeuge, VW's German near neighbour, or Scania, the Swedish heavy truck specialist. Both would be interesting, he concedes. "But there are others which are even more interesting," he says, with a faintly mischievous smile on his face.

'The takeover candidates aren't aware of their problems yet. No one really has to react, everyone can still make money'

BUSINESS TRAVEL DUTY-FREE ABOLITION

Airports drown their sorrows

Europe's regional runway operators fear they will be hard hit by the expected fall in retail income, says **Gillian Upton**

The controversial plan to abolish duty-free shopping within the European Union from July next year is sending a ripple of alarm through Europe's smaller airports. For business travellers, the convenience of flying between UK regional airports and the rest of Europe could be in jeopardy, they say.

Last month, a campaign by the duty free lobby to delay abolition failed to win the necessary support among EU finance ministers, who stopped short of backing Irish calls for a study on the impact of the decision.

Regional airports seem resigned to losing large chunks of their revenue. They warn the decision could force them to increase landing charges by 20 per cent to make up the lost revenue. This in turn may discourage smaller airlines from serving the airports, they say, which could directly affect airport viability.

Airports such as Leeds-Bradford, Teesside, Exeter, Norwich and Bristol all stand to lose. Abolition of duty-free will have less impact on Heathrow and Gatwick, which have a much higher proportion of flights to non-EU destinations. But on average, business travellers could be paying up to £15 ($25) more for a ticket.

Some 91 per cent of passengers using Leeds-Bradford airport, for example, travel within the European Union and generate £1.6m worth of profits from duty-free.

Newcastle airport is the ninth largest in the UK and is serviced by a dozen scheduled airlines. Most travellers (61 per cent) use it for reaching destinations within the EU such as Amsterdam and Brussels.

Duty-free sales account for 42 per cent, or £3.3m, of the airport's profits. "We're an airport owned by seven local authorities so we're prevented from borrowing [because this would come under central government's public sector borrowing requirement]. Duty-free revenue allows us to expand, maintain the building and develop the airport," says Hilary Knox, spokeswoman for the airport.

Newcastle has frozen charges to airlines for the past five years in an attempt to attract more business, but next year it may have to increase them. "What we fear is that without the increasing development of our route network it could affect the viability of the airport." The Duty Free Confederation estimates that 140,000 jobs will be at risk across the EU if abolition of duty-free shopping goes ahead. But the European Commission argues that, in the EU's single market, duty-free trade is a tax distortion.

It is not only airports that say they will suffer. Kent could be hardhit as it is the base of the ferry industry. Duty-free can account for between 30 per cent and 50 per cent of sales on ferries and observers believe ticket prices will rise, while the number of destinations and flight frequencies will be reduced.

Not everyone is anxious about the future, however. Jersey European, the airline, is looking forward to next year's rule change since it flies to the Channel Islands which are outside the EU. Jim French, chief operating officer, is refocusing on duty-free. "It's good news as we can still sell duty-free and we might experience an increase in sales."

As for the situation elsewhere, Mr French adds a note of caution: "We have to be careful that the abolition of duty-free is not used as an excuse to raise airfares," he says. "Airlines and airports have to be transparent about the figures.

"We fly 220,000 passengers each year from Gatwick to Belfast and they've never enjoyed duty free so why should their airfares go up? It's the international passengers who should be charged."

Last chance: cheap alcohol is set to disappear Colin Beere

More Business Travel on the following page

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BUSINESS EDUCATION SOUTH AFRICA

Feeding a hunger for learning

Victor Mallet

ON THE WEB

Trade by bli

BUSINESS EDUCATION SOUTH AFRICA

Feeding a hunger for learning

Exploding demand for training has brought a boom for private educators, writes **Victor Mallet**

FungiGulp may not sound like a promising commercial venture. But it was with a business plan for the establishment of this strangely named company – which would use filtration tanks and yeast to turn troublesome pig waste into animal feed and water – that MBA students from South Africa's Global School of Business beat dozens of international rivals to win second prize in a recent Nasdaq-Motorola competition in San Diego.

The students are on a new course in Johannesburg working towards an MBA granted by Australia's Bond University, and their success is just one sign of the rapid growth of private business education in South Africa.

Global School of Business is part of Advtech Education (Adved), one of the fast-expanding private education, training and recruitment groups listed on the Johannesburg Stock Exchange. The initial public offering for Privest, another company which was listed on April 29, was oversubscribed by an extraordinary 245 times.

Educor, the biggest South African education group, was listed less than two years ago and recently bought International Business Schools, a Canadian operation with 48 schools there and franchise operations in Mexico City and Beijing. Successful South African companies are not only expanding inside the country but exporting their services to Botswana, Zimbabwe, Zambia and further north.

In 1990, when Nelson Mandela's release heralded the end of white minority rule in South Africa, students could choose between only half a dozen MBA programmes at the big state universities. Today there are nearly 20 MBA courses, mostly franchised from foreign institutions such as Henley or Hull in the UK.

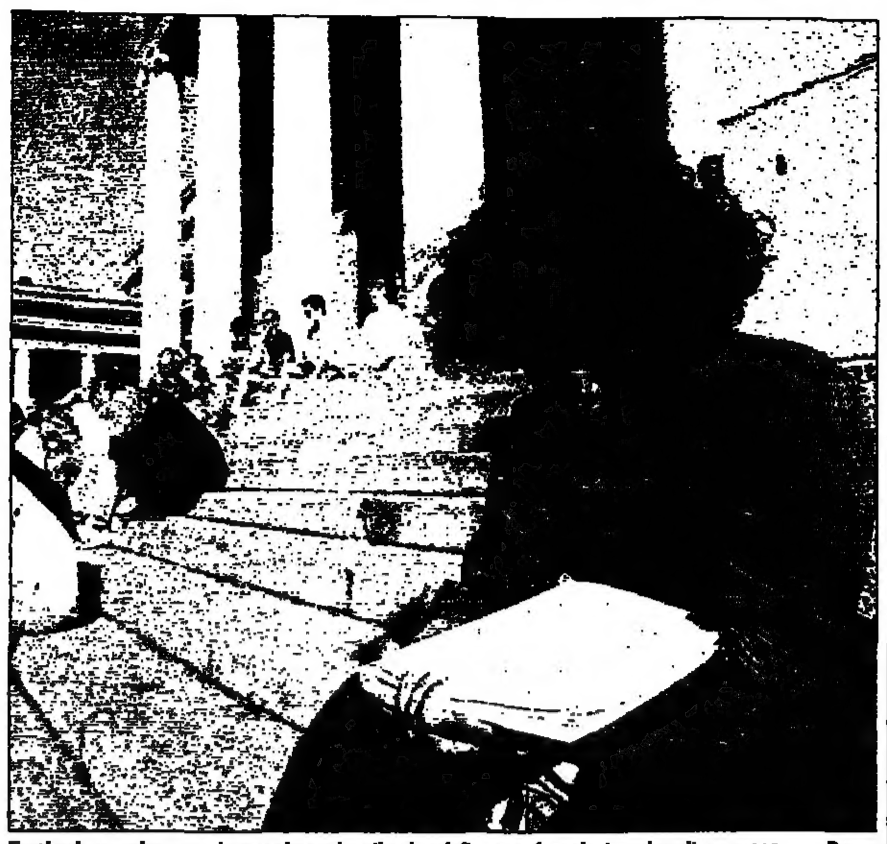
"The trend has happened so quickly and dramatically to a group like ours that today we do more MBAs than all of them [the state universities] added together," says Charles Rowlinson, Educor's chief executive.

Under apartheid, the government's ideologues maintained tight control of education and directed most spending at white students. Today the government is more sympathetic to private education, while the shortage of money for universities, their top-heavy administration, and the decline of campus discipline have given new opportunities to private companies.

"The salaries that are paid in the public sector cannot necessarily match the flexibility and ability we have to pay better but also to get part-time lecturers – which is the key for an MBA – to quickly come in and to pay them quickly," says Mr Rowlinson.

"We're efficient and students obviously like our environments. And the big one is the ability to walk away with an international degree, because we're in a state of risk in this country. You're young, you might go and live in Australia, you've got a Henley degree – it's an international degree – so that's another high motivation to get it."

Companies such as Educor and Adved, which make no bones about regarding students as "customers", are



Emphasis on primary and secondary education has left scope for private university courses Panos

profiting from the upheaval in South African education since Mr Mandela and the African National Congress came to power in the country's first democratic election in 1994.

The government is anxious to compensate for the damage to black education wrought by decades of apartheid, and is understandably keen to focus on primary and secondary education. It is therefore content to see the private sector take up some of the burden of university and postgraduate studies.

Companies seek to bring some colour into their all-white managements

"They say, whatever the private sector's providing, great, the state will only pick up the shortfall," says Mark Rohald, director of Educor's Midrand Campus. "And if that is going to be the way in which government's going to move, we see huge opportunities coming our way, because the minute the government stops funding state business schools, they cannot offer their MBAs at R25,000 (£3,000) They are going to have to charge R50,000 or 60,000 – out of the ballpark. They cannot compete."

Many white students, dismayed by big class sizes and what they see as the falling quality of state education, have turned to the private sector in recent years.

But black students have also been flocking to private institutions for business courses, particularly since private programmes are sometimes only slightly more expensive than those offered by the state at the tertiary level. "At some of our colleges where we're doing business programmes we have 95 per cent black students," says Brian Buckham, Advtech's chairman.

In some cases, relatives will save money to send one family member on a course, while for the more advanced and costly programmes – such as those provided by Educor's Graduate Institute of Management and Technology – it is usually big companies that sponsor the students.

Black graduates with business qualifications are in great demand. Local and foreign companies seek to bring some colour into their previously all-white managements, both to take advantage of long-neglected skills and to cater to new political pressures: the government is planning to enact an "employment equity bill" which would oblige big companies to hire more women and move towards a staff structure reflecting the country's ethnic make-up.

"I can pre-place all my accounting, finance and IT students, white or black, up front," says Mr Rohald. "The black students are getting a premium though. They are being fast-tracked through organisations. White students might be somewhat resentful of it, but they accept it, that's the way it is."

Although South African unemployment – estimated at between 20 and 35 per cent – is alarmingly high, Rohald adds, there is a drastic shortage of skilled people in those fields. "As fast as I can produce those graduates, so they are taken up," he says. "And I often have four or five corporates bidding for the same graduate."

NEWS FROM CAMPUS

Thunderbird spreads wings in Phoenix

Companies that plan to expand into Chile and Peru are the target audience for a seminar to be held on June 12 at the Phoenix Chamber of Commerce in Arizona.

Organised by Thunderbird, the American graduate school of international management in Glendale, Arizona, the seminar will be led by representatives from business development organisations in the two countries as well as Thunderbird faculty.

● Thunderbird is also holding two business forums in London on June 5. The first is on *Emerging Trends in Global Management Recruitment*, the second on *Recruiting Talent for a Global Market*.

Thunderbird: www.t-bird.edu

Coventry does the business

Coventry City Football Club is finding out how it can provide a better service to its fans with help from researchers at Coventry University Business School.

The research breaks down into two parts: first the researchers conduct in-depth interviews with a handful of fans of the "Sky Blues"; second, the data from the interviews are used to compile a questionnaire for more widespread circulation among fans at the club.

Two of the aims of the soccer club are to develop better marketing opportunities and more readily identify potential new fans.

Coventry University: UK, (0)1203 838352

McKinsey seminar

Management consultancy McKinsey has teamed up with Iese in Barcelona to host a two-day seminar, *Building Human Resource Capital and Capabilities for the Future*.

The seminar will address some of the critical human resource issues faced by international organisations in areas such as recruitment, integrating staff, staff retention and staff deployment.

Iese: www.iese.es

Manchester challenge

How do you identify new markets for a 95-year-old engineering company in the north of England and help a lens company launch its latest technology globally?

These are just two of the challenges facing the MBA students at Manchester Business School. They have until the beginning of June to come up with creative solutions to business problems faced by seven local companies as part of the *Creativity in Business* challenge run by MBS and sponsored by professional service firm Arthur Andersen, the legal firm Garretts and Manchester Airport.

The students will present their ideas at a workshop at Manchester airport on June 3. Meanwhile MBS is now encouraging companies who want to participate in next year's event to come forward.

MBS: http://www.mbs.ac.uk

Dutch treat for Jacobs

Don Jacobs, dean of the Kellogg school of management at Northwestern University, Illinois, has been nominated to receive an honorary doctorate degree in business administration from Nijenrode University in the Netherlands.

Nijenrode cites Prof Jacob's record in developing both the MBA and the executive MBA programme at Kellogg as the reason for the nomination.

Nijenrode: Netherlands, 3462 91211

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

EXECUTIVE TRAINING

Timing is all when making a manager

When in a manager's career would he or she most benefit from executive training? And when would the company gain most from sending managers on a management course?

These sort of questions tax human resources departments, but the answers are straightforward, believes Paul Evans, professor of organisational behaviour at Insead in Fontainebleau. Managers get more out of training, he says, if they are starting in a new role.

Prof Evans is setting up a study at Insead to measure the effect of executive training.

"We do need a much better understanding of the circumstances under which management training is effective," he says. "The traditional criterion for deciding when managers should go on a course is when they are available. Perhaps they should go on courses when they are *not* available – when they've just started a new job."

When managers start a new job they are pro-active and use every opportunity to plan strategy, says Prof Evans. They are more likely to take a risk and therefore more likely to have an effect on the organisation.

Prof Evans' study will begin in the next few months and take up to two years to complete.

He believes most will be achieved by those at a critical point of development in their careers, rather than those who are sent along for a personal development experience.

Organisations have already begun to realise the importance of timing, he says, and a growing number of companies now send their managers on courses at a pivotal point in their careers.

Della Bradshaw

TIM JACKSON
ON THE WEB

Trade by blind date

An Israeli company has developed an electronic noticeboard that matches buyers and sellers automatically

What do you do if you have an interesting new service for users of the web, but no clear route to turning it into a viable business? That is the question facing Teleboard, an Israeli software company that has developed a way of making classified ads more useful.

Back in 1995 – three web lifetimes ago – the answer was straightforward. You would offer your service through a web site, do everything you could to encourage word-of-mouth recommendations and work like hell to think of ideas to stay ahead of imitators. That was the story of Yahoo!, which started with a couple of college kids exchanging a list of sites they liked and ended with a business worth $5bn (£2.9bn).

But as the web develops, good ideas alone are no longer enough. Companies like Mirabilis, whose ICQ communications tool (which allows friends to exchange messages without using e-mail) attracted 12m users in just 17 months without a penny spent on advertising, are the exception to the rule that business acumen and sheer luck now count for more than the core idea itself.

Teleboard's core idea is that poring over old-fashioned classified ads is an imperfect way of finding a job, a lover, a travel companion or a business partnership. Because both parties to the transaction have a list of attributes they are seeking, the process can be made far easier and more convenient by using a structured database to carry out the matching.

At the company's web site (*www.teleboard.com*) visitors can browse through lists of résumés, lonely hearts and sale ads for computers and used cars. But the smarter way to use the site is to place an ad – whether as a buyer or a seller. Using a set of easy-to-use forms, called "telegents", you can quickly enter key information on what you are offering or seeking – and how and for how long you want to be contacted about it.

Then comes the exciting bit. Once the ad is "activated", the Teleboard server can instantly notify both sides when a matching advertiser comes on the scene. As a registered user, you are given a personal folder where promising ads from other people can be saved and, if necessary, replied to. You can communicate with other users of the site without revealing any personal contact details.

Teleboard is the creation of Ami Grynberg, a 50-year-old Israeli software entrepreneur. For a decade until 1995, Mr Grynberg's company, Cabinet Systems, was a leading provider of Hebrew-language word-processing software. When the rise of software suites like Microsoft Office put the writing on the wall for stand-alone word processing, Mr Grynberg began looking for technologies that might be big on the web.

The key bits of technology behind Teleboard are its user interface, which facilitates the process of entering complex information, and its database engine, which allows very fast searches in an environment where the number of potential matches grows at the square of the number of users of the database.

Since development on the service began, dozens of specialist web sites matching buyers and sellers in particular areas of activity have become powerful web players. But Mr Grynberg believes Teleboard is unique.

So how does Mr Grynberg hope to make money from Teleboard? His first answer is that the web site proposes to start charging advertisers from next month. Although the site has only recently opened to American users and thus has not yet achieved critical mass, it already contains 10,000 advertisements from inside Israel itself. In a country of 6m people, that is impressive.

I countered that charging for the service is almost certain to reduce the growth rate of its users – and cited ICQ, as evidence that keeping a service free is paradoxically the best way to build value in the company. "No," Mr Grynberg responded. "In some areas, particularly matchmaking, customers are not merely willing to pay. They *want* to pay because a high entry fee makes them more confident about the kind of people that are participating."

Mr Grynberg recognises that the name of the web game these days is partnership. Because the Teleboard service shows its worth best when there are large numbers of people participating, it makes sense for him to find popular web sites that can distribute it for him. Last week, he was on a business-development trip to Silicon Valley, offering web sites a revenue-sharing deal in which Teleboard would offer its service under their brand and they would pay half the revenue (or more) if it proved successful.

I was dubious. Surely web sites with millions of hits a week would look askance at a five-man software company demanding half their classified ad revenues. Mr Grynberg disagrees: he believes that Teleboard is a qualitatively different product that will attract new users who otherwise would not have placed ads.

If he returns from California with a couple of powerful partners, this just might be the next big thing on the web.

tim.jackson@pobox.com

MANAGEMENT BUSINESS LOCATION

Putting the company in its place

Victoria Griffith examines the links between a corporation's identity and its location – and what happens if it moves

There are some companies whose identities are inextricably bound up with where they are based. Think of the New York Stock Exchange, for example, and the skyscrapers of Wall Street immediately come to mind.

But the NYSE may be moving to New Jersey. How will this change its role or the way we regard it?

Ties between the NYSE and Manhattan have always been strong. Its very name calls attention to the NYSE's physical presence among the great Wall Street banks; the Exchange has long been a focus for tourists.

The NYSE is considering the move because plans for expansion in Wall Street have been stymied by concerns for historic sites. Moving to New Jersey would not be the NYSE's first choice. Even if it does go, it will not change its name to the New Jersey Stock Exchange.

There is often little connection between a corporation's name, its image, and its location. The headquarters of Boston Chicken, the restaurant chain, is not in Boston but in Golden, Colorado.

Credit Suisse First Boston's North American headquarters is not in Boston, but New York.

What we often refer to as the Detroit carmakers: Ford, General Motors, and Chrysler (soon to be Daimler-Chrysler), abandoned downtown Detroit for the suburbs years ago.

In these days of the internet and telecommuting, does it matter where an organisation is based? Many companies say it does. For corporations whose sales are mostly local, of course, the link between company and place is vital.

For global corporations, the ties are not as clear. But a company's location is key, for instance, in its ability to attract top talent. "If BankBoston were headquartered in Detroit, I wouldn't be here," said Henrique Meirelles, president of BankBoston. He moved from São Paulo, Brazil, to head the Boston-based institution partly because he enjoys the city.

A company's location can also make a difference to its performance, even after standard considerations, such as labour and energy costs, are taken into account.

As Harvard management theorist Michael Porter points out, the gathering of industries around a certain place – such as the concentration of banks around Wall Street and the collection of high-technology companies in Silicon Valley – usually works to the benefit of corporations located within the cluster. The flow of information and personnel between such companies is facilitated by their physical proximity.

Most big corporations recognise their ties with the local community enough to get involved with at least some local philanthropy. Location is so important to others that they include it in their branding.

Tom's of Maine, the toiletries group, keeps the name of the rural state of Maine to convey an image of backwoods simplicity, in keeping with its all-natural product lines.

The gathering of industries around a certain place, such as Wall Street or Silicon Valley, usually works to the benefit of those within the cluster

Seattle's Best Coffee, a coffee chain founded at around the same time as the Starbucks chain, uses the name of its home city as an integral part of its branding.

"Our name sends the message that we are a company operating in the Mecca of good coffee," says Jim Clark, chief operating officer for the group. "It gives our brand credibility and authenticity."

BankBoston has also incorporated its home town into its brand. A few years ago, television advertisements in Brazil, where the bank has a large presence, featured scenic shots of Boston in an attempt to portray the city as a place where tradition and high-technology go hand-in-hand.

Meirelles, who came up with the idea, later fought to keep the name of the bank after its merger with BayBank. "I don't think companies should hide where they come from," he explains.

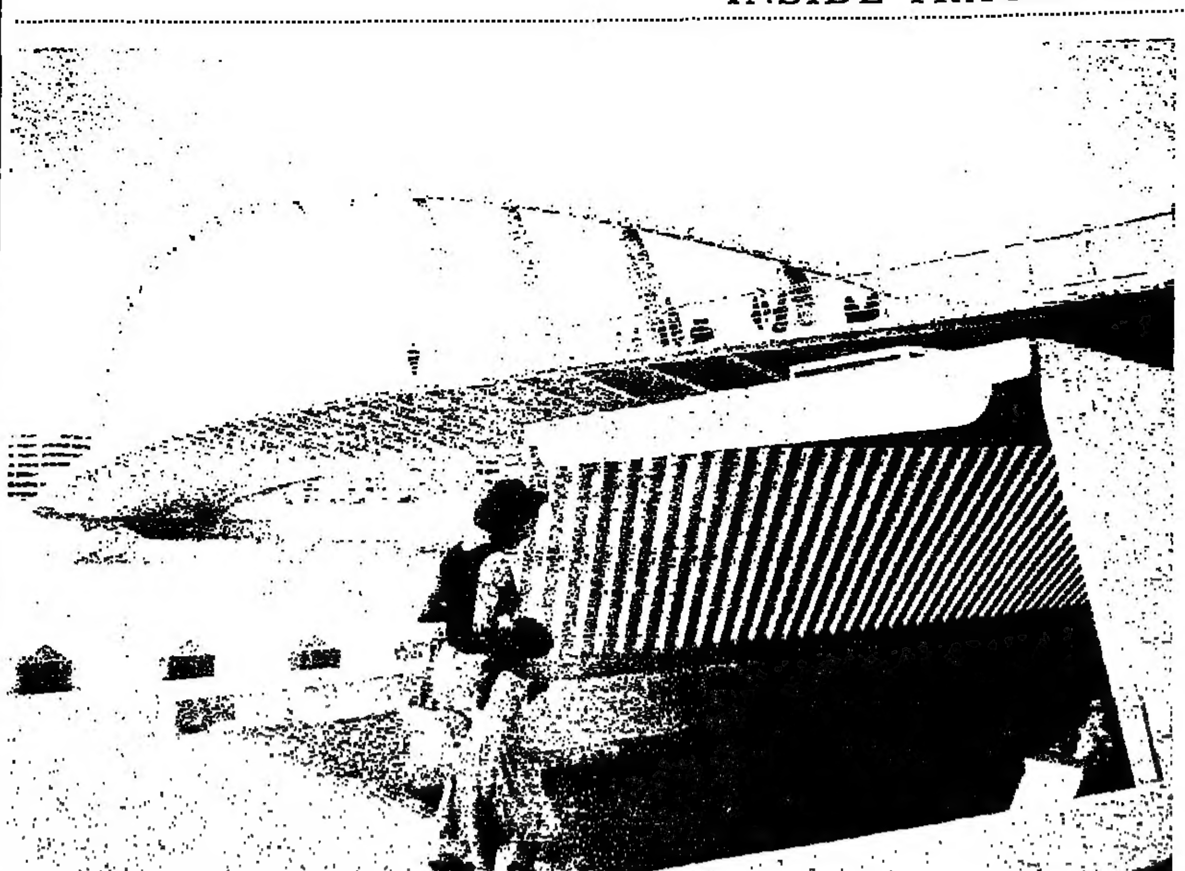
"Our advertising consultants in Brazil wanted us to get rid of the eagle image, BankBoston's symbol, in our publicity there. On the surface it made sense, because the eagle is a symbol in Latin America of imperialism.

"I said: 'No, leave it in. The people who want to do business with a US bank will come to us; the ones who don't will stay away'."

But home town links can be overdone. "We want people to know we're from Seattle, but we don't want to shove it down their throats," says Mr Clark of Seattle's Best. "Most people have some affection for the place they live so if you want to be global, you have to respect that."

What's in a name? This Seattle, Washington-based Noah's New York Bagel store and 36 others in California were sold to Boston Chicken (of Golden, Colorado) in 1996 Picture: AP

INSIDE TRACK



Full sail ahead: The new conference centre, designed by Sir Norman Foster, is a symbol of Valencia's optimism

BUSINESS TRAVEL VALENCIA

An unnoticed revival

Spain's third-largest city has turned into a buzzing centre for industry and the arts, writes **Roger Bray**

Pause for a coffee at a pavement café outside Valencia's covered market and you quickly become aware of some strange spellings on the back wall. Chocolate is spelt *xocolate*, for example. Orange juice is *suc de taronja*.

Valencian is very similar to Catalan – yet some people believe it should be regarded as a separate language. A commission of academics is currently deciding. Arcane though this may appear, a crucial political issue hangs on their decision. If the answer is no, it may speed the absorption of the two regions, provoking fears that a more powerful Catalonia could secede from Spain.

To foreign business visitors, however, the argument may come as a useful titbit of local intelligence, for it is a fair bet that, while most non-Spaniards are aware of the resurrection of Catalan following its suppression by Franco, relatively few know that Valencia also has its own language.

And while the Olympic Games made the whole world aware of the renaissance of Catalonia's capital, Barcelona, the rebirth of Valencia, Spain's third-largest city, has gone almost unnoticed.

But not for much longer. Valencia is buzzing. This summer a conference centre, designed by British architect Sir Norman Foster, opens on its outskirts. With its great glass lobby wall and a roof that soars like the prow of a ship, it is a symbol of the city's optimism.

At the same time, Spain's Santiago Calatrava, a native Valencian, was designing much of the striking City of Arts and Sciences, which is due to open fully just in time for the millennium. Its development, which has been funded by the regional government and the European Union, is well under way.

Valencia was a temporary seat of the Republican government during the civil war. Ministers decamped there in 1937 as Madrid came under siege, meeting in the council chamber. But it is not just the reaction to long years of dictatorship and the banning of its language that have provided the springboard for growth. In 1957 Valencia suffered appalling floods. People moved out to safer ground. The centre lost its life. Three things then happened. The River Turia was diverted – locals paid a stamp tax to raise the money. To revitalise the centre, the city council bought properties there and offered them to young couples at low rents. And it was decided not to push a highway along the dry river bed but to turn it into a recreational area. There are football pitches, nursery gardens, children's play areas – and soon it should be possible to cycle or jog 10km from the city to the sea.

Relatively few non-Spaniards know that Valencia has its own language

The underground system, which already comprises three lines but stops at the old river bed, is being extended to the city centre. Eventually it will run to the airport. There is already an impressive tram system, its rolling stock and stations indicated via digital displays in the carriages, made locally by GEC Alsthom.

Fast Ave trains run to and from Barcelona in three hours – catch them at Valencia's wonderful, tiled station, built early this century in the art nouveau style called *modernista* – but improvements to the line should eventually reduce the journey time by 30 minutes.

And the port area – Valencia's equivalent of Barceloneta – has been reclaimed for weekenders. Restaurants facing the Mediterranean do a roaring trade. Some are new, but not La Pepica, a century old this year and beloved of King Juan Carlos whose grandfather ate there. It is cheap by international standards. You could entertain a contact to *pescalito* (mixed small fish) and a *paella*, with wine, for between Pta6,000 (£23) and Pta10,000.

Essential guide to Valencia

Direct flights: GB Airways and Iberia from London; Lufthansa and Iberia from Frankfurt; Alitalia from Milan; Crossair from Zurich and Geneva.

Taxis: Inexpensive. From the airport to the centre takes around 15 minutes, depending on traffic, and costs between Pta1,500 (£5.80) and Pta2,000. A ride from the old town to the new conference centre, which is also accessible by metro or tram, will cost Pta500-Pta600.

Hotels: Try the Astoria, Plaza Roderigo Botet (tel: 96 352 6737). Rack rate* Pta20,500. Executive floor rooms cost Pta24,200 for single occupancy including breakfast.

Melia Valencia Palace. Paseo de la Alameda (96 337 5037) and Melia Rey Don Jaime (96 337 5030) both have pools – Pta25,000 and Pta18,650 respectively.

Also worth considering are Melia Confort Ingles, Calle Marques de Dos Aguas (96 351 6426), Pta15,000; and the Ad Hoc, a beautifully converted mansion, Calle Boix (96 391 9140), Pta11,400. Add 7 per cent VAT to these rates.

*Prices are for double rooms used as singles. Corporate rates are generally lower.

Restaurants: As well as La Pepica, two eateries in town – Restaurante Canyar (particularly good for fish but tends to recommend dishes rather than present a menu) and Palacio de la Belotta – are highly recommended. Allow £25-£30 a head at the former, £20-£30 at the latter.

Conferences: The new centre will have halls for 1,500, 500 or 250 delegates. Palau de la Musica has auditoriums for 1,790 or 420, and two rooms seating 100 each.

Hotels with meeting rooms include Melia Valencia Palace and Astoria, which also has a terrace overlooking the city for cocktail parties and other functions and can offer a converted farmhouse out of town with capacity for 800.

TRAVEL UPDATE

Hilton hotels to open in Salalah and Nassau

Plans to open two hotels have been announced by Hilton International. One will be on the Indian Ocean, 5km from the Omani city of Salalah. Co-owned with local partners, it will have 151 rooms, 20 of them with kitchenettes for medium-stay guests. It will also have a beach club, business centre and ballroom for 500.

The hotel is being built from scratch at a cost of $30m (£17.9m) and is scheduled to open midway through next year. The other, due to open a little earlier in 1999, is in Nassau, capital of the Bahamas, and was formerly known as the British Colonial Hotel, which is undergoing a $50m redevelopment. It will have 290 rooms, meetings and business facilities, and a health club.

Bucharest crime warning from Foreign Office

Muggers armed with knives are on the prowl in Bucharest, the Romanian capital, and in the harbour area of Constanta, on the Black Sea, warns the British Foreign Office. Consular officials, who also report a general increase in petty crime such as bag snatching, advise travellers to take particular care when leaving currency exchanges or using cashpoints.

Plugging into laptop use

Guests at London's *Mayfair* Inter-Continental Hotel can buy laptop converter plugs and computer disks which are left in bedrooms. Laptop plugs cost £9.50 ($16), and two disks £4.50. The hotel is clearly meeting demand. It sold 61 plugs in March and April and about 30 packets of disks.

Brussels/Belfast round-trip air route opens

Sabena will start flying between Brussels and Belfast tomorrow. Initially the Belgian airline will operate one round-trip a day, Monday to Saturday, using 84-seat BAe 146 jets with business and economy cabins. Flights will leave Brussels at 12.05pm, returning at 1.55pm local time. But Etienne de Nil, Sabena's general manager for the UK and Ireland, says: "We are confident that in the near future traffic on the route will justify the addition of a second daily flight."

Between a rock and a hard place

Anyone starry-eyed enough to imagine that liberalisation of Europe's air routes means complete freedom of the skies should consider the problems faced by GB Airways when bad weather forces its pilots to divert Gibraltar-bound flights to Malaga, across the border in Spain.

Since Malaga is only about 90 minutes away by road, it might seem a simple matter to transfer passengers by bus and fly them to London from there. After all, the airline, which was founded in Gibraltar but is UK-based and operates under a British Airways franchise, already flies to Malaga and to other Spanish cities. Sadly, because of Madrid's continuing sensitivity over the status of the Rock, it is not at all simple.

If the airline knows before take-off that its aircraft will not be able to land, it can change the flight number, depositing and collecting passengers on Spanish soil instead. But if cloud descends while the jet is en route – a rare occurrence, it says, the

authorities insist it flies back from Malaga empty. It cannot even fly on to Gibraltar if the weather clears. "All we can do," says a spokesman, "is abide by the rules."

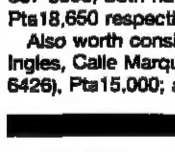
As passengers discovered when one morning flight to Gatwick was cancelled recently, that can mean a wait of around 10 hours for the next service from the Rock.

Roger Bray

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	26	24	23	23	25
Hong Kong	31	32	30	31	31
London	22	21	21	22	21
Frankfurt	21	24	24	24	26
New York	25	24	22	23	23
Los Angeles	23	21	21	21	22
Milan	25	27	27	28	28
Paris	22	24	24	25	24
Zurich	21	23	23	26	26

Information supplied by PA WeatherCentre. Maximum temperatures in Celsius



JUDY DEMPSEY
FILE FROM JERUSALEM

Israelis chafe under religious orders

Many secular Jews have misgivings about the efforts of ultra-Orthodox groups to create a theocratic state

Leah Rakia has been running an art gallery in Jerusalem for nearly a decade. She has chosen her artists carefully, selecting Israelis and young Russians who have recently arrived in Israel. Some of the Russians focus on Jewish themes but Jakob Feldman, who was trained in the classical style at the art school in Vitebsk, Belarus, has used Christian images in his work.

Mrs Rakia no longer hangs all of Feldman's oil paintings. Nor does she display nude sculptures in the window, however small. It is not because they will be stolen. It is because ultra-Orthodox Jews have threatened to smash her windows if such work is exhibited.

Mrs Rakia cannot afford such a confrontation. Selling art is her livelihood. But it seems few politicians are prepared to confront the Haredim, or ultra-Orthodox, as they try increasingly to set the country's cultural parameters.

In recent weeks there have been several cultural clashes between secular and religious Jews. During celebrations to mark the 50th anniversary of the state of Israel, the Haredim asked actors of Israel's Batsheva Dance Company not to strip to their underwear for a performance interpreting a Jewish prayer-song. The actors cancelled the performance rather than compromise.

Last month, Ezer Weizman, Israel's president, said he wanted an army choir, which included three young women soldiers, to sing in the Knesset (Parliament) during the swearing-in ceremony for his second term in the post. The ultra-Orthodox political parties announced they would boycott the event because according to strict Orthodoxy men are not permitted to hear a woman sing. Mr Weizman dropped the idea.

Benjamin Netanyahu, the prime minister, has also shied away from confrontation with the Haredim since his election two years ago, when his Likud party formed a coalition of nationalist and religious parties. It might cost him secular votes – but it will bolster his support from the religious camp.

When Ehud Barak, opposition Labour party leader, recently submitted a bill to draft ultra-Orthodox students into the army, it received support from secular Israelis. It was hardly surprising. Seculars are fed up serving in the army while the 30,000 students in the yeshivot, the religious schools, can defer military conscription so long as they are studying. That can take decades – and at taxpayers' expense.

Sensing the popularity of Mr Barak's bill, Mr Netanyahu promised to set up a committee to look into conscription for the ultra-Orthodox. He quickly abandoned it after objections from the Haredim.

The Netanyahu government is not prepared to confront the religious parties because they hold 23 of the 120 seats in the Knesset. To keep them in a fragile coalition that has a majority of just two votes, the government has allocated extra funds for education and generous housing subsidies.

This was confirmed by Miriam Ben-Porat, the outgoing state comptroller, in her annual report. She showed how the housing ministry (run by the religious parties) discriminated in favour of the ultra-Orthodox, leaving young secular Jews and Israeli Arabs at the bottom of the housing list.

What is needed is for political leaders to speak out in defence of civil values

Defenders of civil society say the more that politicians turn a blind eye to the growing influence of the Haredim for the sake of remaining in power, the greater the danger that Israel could slide towards a theocratic state.

They insist these are not idle or exaggerated warnings, adding that the guardians of the fabric of the civil society, the judiciary, are just as worried. Over the past two years, judges at district and supreme court level have received death threats. The threats come from the Meshulam group of extremist, charismatic Jews; from ultra-nationalist Zionists who influenced Igal Amir, the student who assassinated Yitzhak Rabin, then prime minister, in November 1995; and from criminal gangs.

Pressure on the judiciary also comes from Shas, the increasingly influential ultra-Orthodox political party. It believes civil judges and their courts should be replaced by religious judges and the Rabbinical courts.

Such demands from these groups prompted the National Judges and Bar Association to issue a statement a fortnight ago. It said: "One had to see the severity of the threats to the judges as insults and prejudicial attacks on the most vital part of democracy – the windpipe [voice]." Protection of the judges has been stepped up.

Advocates of a strong democracy say protection is not enough; what is needed is for political leaders to find the courage to speak out loudly and openly in defence of civil values. They also say it is time to form a liberal, centre party not beholden to the religious parties.

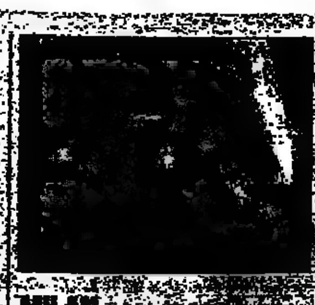
One of the few politicians prepared to do this is Roni Milo, the Likud mayor of Tel Aviv. He has decided to run for prime minister, backed by a new political party. He has little to lose. He has no future in Likud because he has argued with Mr Netanyahu. Besides, there is a yearning, as Mr Milo puts it, for a new political structure rid of extreme religious groups. So far, few politicians or personalities have declared support for Mr Milo. If they do, it just might start a much-needed realignment of Israeli politics and its rescue from the theocrats.

OPENINGS

LONDON
Starting on Wednesday, the Tate Gallery is presenting a selection of new work by Lucian Freud – the first substantial group of his paintings to be shown in London since 1993. They include examples of Freud's large-scale studio nudes (right).

The Young Vic Theatre launches its own resident repertory company this week with Tim Supple's production of *Twelfth Night*, a sequel to his superb account of *The Comedy of Errors*, seen here last summer. The first night is tomorrow.

Cheek by Jowl gives the London premiere of Declan Donnellan's production of *Much Ado About Nothing* at the Playhouse Theatre on Friday. Saskia Reeves and Matthew Macfadyen lead the cast.



MILAN
Riccardo [illegible] into Puccini when he conducts Liliana Cavani's new production of *Manon Lescaut* at La Scala on Friday. The cast is headed by Maria Guleghina and José Cura.

VIENNA
Peter Stein directs the world premiere of the new Botho Strauss play, *Die Ähnlichen* (Lookalikes), at the Theater in der Josefstadt on Saturday. The production will visit the Edinburgh festival at the end of August.

SAN FRANCISCO
The San Francisco Opera's "Femmes fatales" season gets underway on Saturday with *Lulu*, in which Frederica von Stade sings her first Geschwitz. The other operas in the series are Monteverdi's *Poppea*, *Carmen* with Olga Borodina, and Mark Morris's production of *Platée*. Apart from the UC Berkeley Campus performances of the *Rameau*, all take place at War Memorial Opera House.

CHICAGO
The Art Institute of Chicago has organised an exhibition devoted to James McNeill Whistler's influence as a lithographer. Comprising 200 works, the show opens on Saturday and runs until the end of August.

NEW YORK
The Metropolitan Museum is mounting an exhibition devoted to Sir Edward Burne-Jones, the influential 19th century British artist. It includes 200 works of art – paintings (left), tapestries, stained glass and jewellery – and opens on Thursday.

American Ballet Theatre gives its first performances of Ben Stevenson's new *The Snow Maiden* on Friday, at the start of a month devoted to full-length stagings.

BADEN-BADEN
The Royal Opera's season at the new Festspielhaus begins on Saturday with a concert performance of Strauss's *Die aegyptische Helena*, conducted by Christian Thielemann (below, right). The focal point of the season is next Monday's premiere of a new production of Verdi's *I masnadieri*, which will visit the Savonlinna and Edinburgh festivals over the summer.

BIRMINGHAM
This week British ballet celebrates the hundredth birthday of Dame Ninette de Valois (above). Cause for much rejoicing. Birmingham Royal Ballet revives Dame Ninette's adorably funny *The Prospect Before Us* as part of a triple bill.

STOCKHOLM
On Friday the Royal Swedish Ballet begins a festival celebrating 225 years of its existence. Repertory includes ballets old and new, and runs until June 13.

A magician of musical note

Andrew Clark meets Matthias Bamert, a conductor with many strings to his bow

It's hard to think of a musician with as many strings to his bow as Matthias Bamert. As a student composer he rubbed shoulders with Zimmermann and Stockhausen. As an aspiring young conductor, he sat at the feet of Stokowski and Szell. He has made wacky music programmes for television, conducted countless world premieres and popularised little-known composers like Parry, Korngold and Michael Haydn. He has taken the London Mozart Players to Vienna and transformed the fortunes of the Lucerne festival.

In the age of the specialist, Bamert, 55, can turn his hand to anything and do it well. That makes him an extremely useful conductor – so it's no surprise to find him in demand on both sides of the English Channel.

This week, he starts a nine-concert tour of Switzerland with the London Mozart Players. On July 26, he conducts the UK premiere of Weill's *Die Prophesten* at the Proms. In August, he will preside over the inauguration of Lucerne's new concert hall, and next February he will conduct a royal gala to mark the LMP's 50th birthday. Hardly a month seems to pass without another Chandos CD bearing his name.

Bamert's sober Swiss exterior is deceptive. Behind it lies a dry wit, a healthy disdain for the Swiss mentality and an inveterate curiosity for the new and neglected. His versatility has not always worked to his advantage. As anyone who has heard his Dvořák or Debussy will know, Bamert conducts mainstream repertoire as well as anyone – but he tends to get engaged for the music other conductors do not carry in their overnight bags. He is known as a "quick read", able to size up complex scores and sort the problems: numerous composers have him to thank for turning a potential disaster into a successful premiere.

And it's not just living composers who have benefited from Bamert's forensic skill. His recordings with the LMP have filled a gap in our knowledge of the classical era. He says it is commonly assumed that the only music worth hearing came from Haydn, Mozart and Beethoven. "Was there really no other worthwhile music in Europe? Where was it? Where is it today? It's a fascinating subject."

Bamert researched 60 composers and discovered that, while much was of mediocre quality, a patient trawl would invariably yield a handful of gems. "What I found absorbing was the way it put Mozart into context: this was the sound of his time. It's music that needs to be heard to understand Mozart – you begin to realise why his life ended so miserably, why he was misunderstood, why he went out of fashion. It was because he went beyond the style people found acceptable. Having absorbed existing styles from Mannheim, France and Italy, his music became far more complex than anything his contemporaries were doing. But we never think of him as avant-garde."

Unfashionable composers of our own century have found in Bamert an equally diligent champion – Korngold being the perfect example. He says the argument that Korngold sold himself to Hollywood is mistaken. "If you listen to his early Viennese music, it sounds like Hollywood, but there *was* no Hollywood at the time. Hollywood was years away – Korngold invented the Hollywood sound," he says.

Unfashionable composers of our own century have found in Bamert a diligent champion

"Film music had none of the second-rate connotations it has now. It needed a big orchestra, it opened up wonderful possibilities for music. No one realised then that film was going to be different to opera. In opera, the composer was the star; in film, he merely illustrated a mood. Korngold's tragedy was that, by the time he tried to get out, film music had become second-rate and superficial, and he had helped to make it so."

Bamert's experience of working with Stokowski in the 1960s paid dividends when he began transferring Korngold's lush scores to CD. He knew his master's tricks – and they were no less useful in his recordings of Stokowski transcriptions. Bamert explodes some of the myths surrounding the Stokowski sound.

"Everyone thinks he did incredible things with the orchestration. But in the *Toccata and Fugue*, he used the same instruments as Bach. The difference lay in the way he set it. He needed a full orchestra – more strings but not more instrumental voices – and he capitalised on the sound by using free bowings. Nowadays we're conditioned to think everyone must bow together, to get the same articulation. But if you have half the orchestra doing a down-bow and half an up-bow, you get an incredibly sustained line. You just have to watch out where you use it."

Bamert has proved himself as level-headed backstage as he is on the podium. As intendant of the Lucerne festival since 1992 and music director of the LMP since 1993, he has done much to consolidate the reputation of each institution. But there is a note of relief in his voice when he discloses he is giving up both jobs. Although he has stabilised the LMP's personnel, he has not achieved his goal of developing its profile in London.

He is also frustrated by the Arts Council's willingness to fund music education projects, when orchestras are struggling to maintain their core performing activity. "If the arts budget gets allocated to education, who does the performing? Music is not like books. It needs to be played in order to live."

In Lucerne, he has been more successful, tripling the budget and laying on events which have encouraged a greater sense of local ownership. Although he has strengthened the thematic content of the programme, he believes the festival's primary function is to showcase the world's leading musicians.

With Lucerne and the LMP soon to disappear from his schedule, what next? Bamert and his American wife Susan, who is a senior executive at Boosey & Hawkes, are both committed Anglophiles, but somehow you can't imagine him sitting back in his London apartment.

"Everybody thinks I'm going to conduct *more*," he says with a characteristic twinkle in the eye. "What's important is that I conduct *better*. That's the stage of life I've reached. There's always been something that has suddenly interested me, and I've started doing it. But if I want to conduct better, I'm going to have to devote more time to it."

Audience enjoys the pantomime

THEATRE

ALASTAIR MACAULAY

The Merchant; As You Like It
The Globe, London SE1

Go to Shakespeare's Globe and discover why, in Shakespeare's day, his plays seemed no greater than those of several other playwrights. Shakespeare's Globe is in its second full season; the two plays with which it has launched its summer fare are the fourth and fifth Shakespeares presented there to date. As in Shakespeare's day, his plays are very popular there, but half the time they are like the summer equivalent of Christmas pantomime. The audience is never so happy as when it can boo, hiss, cheer or roar with laughter. Stale comic business that would fall flat in any conventional theatre is a wow here.

True, you learn how vividly Shakespeare's plays live in the line. For much of this audience, Shakespeare is a tourist attraction, up there with Madame Tussaud's. Some curl up in uncomprehending misery and try to catch some sleep; but plenty mean to have a good time, and let everyone know about it. It is refreshing to see how well Shakespeare holds their attention. And when he doesn't? Well, there is still a great deal of goodwill until the next excuse for audience reaction comes along.

And so the standees dominate the evening more than the actors. (Many of the seats – even if you pay for a cushion – are excruciatingly uncomfortable. The theatre's acoustics are best in the upper circle.) I have seen all the Globe's productions so far; very few of its actors have dared to try commanding the audience by any other means than earning laughter.

Mark Rylance, the theatre's artistic director, has still to show the Globe audience why he can be the most heart-catching Shakespearian actor of his generation. Playing Bassanio in the current *Merchant of Venice* (his fourth role at the Globe), he is ardent both in loyalty and in humour; he knows, here and there, how to sound affecting vocal notes. But he is not fully in control of his role or the play. Slightly fidgety, he moves indecisively from this known Rylance effect to that.

Much the same is true of Anastasia Hille, who played opposite him in the Globe's 1996 preview production of *Two Gentlemen of Verona*, and who now returns to play Rosalind in the current *As You Like It*. In voice, person, commitment and spontaneity, she has abundant talent. But not, in this production, a jot of stillness. Such frenetic energy so undisciplined in a greatly gifted young actress I have not seen since Fiona Shaw.

The best acting the Globe has yet produced comes in the slightly old-fashioned performance of Kathryn Pogson as Portia in *The Merchant*. Simply and elegantly, she takes control of every scene and gives us Portia as melancholy damsel and mischievous wit, as great lady and canny hero; and she shuts up the standees when she wants to and makes them take her, and the play, seriously. It is not a dazzlingly original or spontaneous performance, but it is the first to give me hope that Shakespeare's finer flights may tame the Globe audience of today. I hope the company learns from her.

Probably it won't. The Globe productions are grab-bag assortments. We have period madrigals and 20th century ad-libs; we have actors for whom English is their second (possibly third) language and British actors of embarrassing immaturity. Norbert Kentrup's Shylock would be a distinguished performance if played in his native German; but it is hard for us to follow an actor who speaks of "a Tenniel come to chudgement". Marcello Magni gives his usual shabby performance as Launcelot Gobbo. He leaves no unoriginal comic effect unlaboured, no opportunity for heavy cuteness unmilked. What was the director, Richard Olivier – who puts this *Merchant* into handsome period frocks and surrounds it with period Italian madrigals – up to?

Still, the current *Merchant* is miles better than the current *As You Like It*. The director Lucy Bailey, responsible for last season's disgracefully amateurish *Maid's Tragedy*, attends only to external trappings. Costumes are gorgeous; musical numbers and accompaniments (albeit execrably executed by all concerned, which is not the case in *The Merchant*) proliferate. The actors rush around in an anxious froth of over-activity.

Only John McEnery (as Jacques) has the experience to speak and stand with calm authority. But with his "All the world's a stage" soliloquy, Bailey has Orlando bring on old Adam in his arms slowly through the audience and reach the stage as Jacques speaks of the seventh age of man: as a result nobody is paying attention to McEnery at all. Sure, Shakespeare works if played like Christmas panto; but few pantos are given with Bailey's lack of theatrical professionalism.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 16th to the end of the 18th century, chosen from the museum's collection of cabinets, and opened to reveal secret compartments and hidden drawers. Includes four pieces by the cabinetmakers Abraham and David Roentgen; to Aug 30

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 1, 5

BADEN-BADEN

OPERA
International Festival
Tel: 49-711-780 4156
The Royal Opera: Die Agyptische Helena, by R. Strauss. Christian Thielemann conducts a production starring Deborah Voigt in the title role, with Reiner Goldberg and Lyuba Kazarnovskaya, on the opening night of the festival, in the new Festspielhaus; Jun 6

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Wassilij Sinaiskij in works by Stravinsky and Tchaikovsky; Jun 4, 5, 6
● Rundfunk-Sinfonieorchester Berlin: conducted by Alan Gilbert in works by Karmon, Mozart and Copland, with clarinet soloist Sharon Kam; Jun 3

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Lorin Maazel in works by Maazel and Mahler. With cello soloist Rostropovich; Jun 5

DANCE
Deutsche Oper
Tel: 49-30-34384-01
La Sylphide: revival of a production designed by David Walker and directed by Peter Schaufuss, after August Bournonville; Jun 6

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: Daniel Barenboim conducts two all-Beethoven programmes. With soprano Jane Eaglen. Barenboim himself performs Beethoven's Piano Concertos Nos. 1 and 4 (Jun 4) and Nos. 2 and 3 (Jun 5)
● Chicago Symphony Orchestra: conducted in works by Beethoven and R. Strauss by Daniel Barenboim, who also performs Piano Concerto No. 5. With soprano Jane Eaglen; Jun 6

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-612 9900
Brian Cronin: Fat Face With Fork. First exhibition in Ireland of work by the Dublin-born, New York-based illustrator. Spans his career from his first illustration to recent drawings, and includes sketches and source material; to Jun 1

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; Jun 1, 3, 5

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; Jun 3

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Cosi Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jun 1, 4, 6
● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; Jun 3, 5

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; Jun 2, 5

LAUSANNE

EXHIBITION
Fondation de l'Hermitage
Tel: 41-21-320-5001
Pointillisme: more than 100 works, including loans from Europe and the US, tracing the influence of Seurat at the turn of the century; to Jun 1

LONDON

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Lucian Freud: Some New Paintings. More than 20 recent works, many of them completed during the last year and never before exhibited in Britain. Includes characteristic, large-scale studio nudes, and portraits of the artist's daughters; from Jun 3 to Jul 26

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Carmen: David Ritch and John La Bouchardière direct a revival of Jonathan Miller's production, conducted by Noel Davies (Roy Laughlin on Jun 26 and Jul 1). The title role is sung by Sally Burgess; Jun 3, 5
● Manon: by Massenet. New production by David McVicar, designed by Tanya McCallin. Rosa Mannion sings the title role and the conductor is Paul Daniel; Jun 4, 6

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Manon Lescaut: by Puccini. Production by Liliana Cavani conducted by Riccardo Muti. The cast is headed by José Cura and Maria Guleghina; Jun 5

NEW YORK

EXHIBITION
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Bonnard (1867-1947): transferring from London's Tate Gallery, this major retrospective focuses on more than 100 works produced between the 1890s and 1940s. Includes landscapes, still lifes, a series of nudes, and several self-portraits; from Jun 1 to Oct 1

THEATRE
Brooklyn Academy of Music
Tel: 1-718-636 4100
The Royal Shakespeare Company: continuing its two-week residency, with performances Matthew Warchus's production of Hamlet, with Alex Jennings in the title role; Krapp's Last Tape, by Samuel Beckett, performed by Edward Petherbridge; and Shakespeare's Henry VIII, with Paul Jesson and Jane Lapotaire

OSAKA

EXHIBITION
The Museum of Art, Kintetsu
Tel: 81-6-624 1111
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame; The to Jun 8

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Sylvain Cambreling in works by Boulez and Messiaen. With soprano Françoise Pollet; Jun 3, 4

Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre des Champs-Elysées: conducted by Philippe Herreweghe in works by Berlioz and Schumann. With mezzo-soprano Brigitte Balleys; Jun 5

VIENNA

THEATRE
Theater in der Josefstadt
Die Aehnlichen (Lookalikes): Peter Stein directs the world premiere of Botho Strauss's new play, in a production which will visit the Edinburgh festival at the end of August; the first performance is on Friday

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

PERSONAL VIEW BURTON MALKIEL

Rich in eastern promise

Despite the crises, Asia's economies still offer excellent investment opportunities

Few analysts even hinted at the possibility of the unprecedented collapse that toppled emerging markets in Asia last year. To be sure, we can see in retrospect that the Asian Tigers and Tiger Cubs that had pegged their currencies to the dollar were becoming less competitive as the dollar appreciated and current account deficits grew. But inflation was low and government budgets were more or less in balance.

We now see also – although it was not so transparent before the collapse – that private borrowing by banks and corporations was generally excessive. Moreover, borrowing was often short-term rather than long-term and was usually done in dollars rather than in domestic currencies.

Over-expansion in industries such as computer chips and excessive property speculation could have been absorbed had they been more prudently financed. But they proved toxic as the initial currency depreciations made dollar-denominated debt even more burdensome and currencies yet more suspect. With the currencies and equity markets in what appeared to be free fall, many analysts proclaimed that the Asian miracle was nothing more than a mirage.

Complicating a resolution of the crisis and a quick recovery of the Asian economies is the considerable criticism from both right and left of the International Monetary Fund's role in bringing Asia back from a fully fledged collapse. Critics of the IMF have three main complaints:

● The IMF has presented tight macroeconomic policies for the Asian economies. Critics say these are wholly inappropriate for the current condition. Unlike past IMF interventions, the crisis has not been caused by inflation and large government deficits. Engineering a deep recession will only aggravate the problem and increase bankruptcies.

Confidence in Asian economies will grow if they reject crony capitalism, as practised by Indonesia's former president Suharto

● To the extent that IMF funds are used to guarantee private loans, the IMF has been accused of squandering taxpayers' money and contributing to a "moral hazard" problem. If borrowers and investors do not suffer from foolish decisions, what incentive will they have to be more cautious in future lending?

● Critics argue that the IMF is trying to do too much in micro-managing the Asian economies. Attempting to impose structural reforms usurps the legitimate role of sovereign governments and may lead to a loss of legitimacy for the IMF.

Many of these criticisms have elements of validity, and there is certainly room for improvement in the IMF's practices and policies as it tries to cope with one of the most serious international financial crises in history. But there is no way to restore any degree of confidence in the east Asian currencies and to contain inflationary pressures without high real interest rates.

Moreover, loose government budgets – especially with spending for projects that benefit family members of government leaders – only increase suspicions in the international financial community. And while IMF loan guarantees may well engender more risk-taking than is desirable, there were more than enough losses in bond and equity markets in the second half of 1997 to convince investors and lenders that they cannot count on being insulated from the costs of foolish decisions.

Finally, the Asian economies will be far better off with fundamental structural reforms. Asian governments do need to close insolvent banks and establish a sound and efficient regulatory system with greater financial transparency.

To the extent that the IMF can lead the reluctant Asian economies from crony capitalism to free markets, confidence is more likely to be restored. Indeed, those countries that have been most resistant to IMF ministrations have been the least successful in stemming the crisis. On balance, while there are legitimate criticisms of the IMF, it is hard to believe the world would be better off without it.

From the standpoint of investors, the question is whether the crisis has created a profitable buying opportunity. No one can forecast whether the end-of-1997 lows in the Asian stock markets will prove to be the bottom. But the biggest gains from equity investing are likely to come when the clouds appear darkest.

The fundamental strengths of the Asian economies remain. Labour costs are low, the work ethic is strong and the people are thrifty and committed to education. Populations are growing, taxes are low and climates favourable for entrepreneurship. The currency depreciations have made the economies very competitive in world markets.

While critics are now quick to dismiss the Asian miracle, it is well to remember that these economies have achieved increases in living standards in one generation that took several generations for western countries to achieve.

Moreover, valuation levels in the Asian equity markets appear compelling. Price-normal-earnings, price-book-value, and price-sales ratios are all well below those in the developed world. Equity investments in these countries are also great diversifiers since these markets tend to have low correlations with the US and other developed-nation markets.

Leading US financial groups such as GE Capital see the present situation as ideal for global bargain hunting. Jack Welch, GE Capital's chairman, wrote in his recent annual report that the region "should provide us with a unique opportunity to make the strategic moves that will increase our presence and our participation in what we know will be one of the world's great markets of the 21st century".

For individual investors, regional closed-end investment company shares, currently selling at substantial discounts from their net asset values, can provide excellent diversification and bargain basement prices. For those with strong stomachs and a long-term horizon, commitments today are likely to prove extremely rewarding over the years.

The author is Chemical Bank Chairman's professor of economics at Princeton University.

LETTERS TO THE EDITOR

Microsoft issue is differentiating new features from applications

From Professor H Michael Hayes.

Sir, Gregory Mankiw (Personal View, May 26) says he would not give the Justice Department a pass grade if the case were an exam question. I would not give Mr Mankiw a pass grade on his exam question. The issue is not whether the government should regulate Microsoft's product design and marketing decisions. The issue is whether Microsoft should be restrained from bundling applications such as its Internet Explorer, where it has a strong competitor, with its operating system where its dominant position confers monopoly power.

Mr Mankiw argues that Microsoft has added many features to its operating system that have made computers easier to use. Wonderful. And it should continue to do so to compete with other operating systems. But it appears that Microsoft needs help in differentiating new features from applications, where its power to bundle is clearly anti-competitive.

One would hope that Microsoft would act responsibly in this matter. It has not, however, leaving the government with little choice but to intervene.

H. Michael Hayes,
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Westminster, CO 80030, US

Significant omission

From Mr Gautam Parikh.

Sir, I was disappointed in your special Chicago survey (May 22), because you completely ignored one of Chicago's most significant features: the University of Chicago. Consider the following:

● Since 1975, 11 members of the faculty have been named Nobel laureates, including five who were honoured in the last six years. In all, 69 Nobel prize winners have been associated with the university as students, faculty, or researchers. The most recent winner is Robert Lucas, who is also co-director of the undergraduate economics curriculum.

● Currently, 87 university alumni serve as presidents or provosts of colleges and universities throughout the country.

● The university was founded by John D. Rockefeller, and William Rainey Harper was its first president. Classes began on October 1 1892.

Given its youth, perhaps there is something here for the ancient British universities to emulate, and for FT readers to admire?

Gautam Parikh,
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US

Favourite is different

From Mr Francis McInerney.

Sir, In your report, "Canadian hockey teams cry foul as poor results continue" (May 26), you state: "These are not the best of times for Canada's national sport."

Hockey has never been, is not now, and probably never will be, Canada's national sport. Favourite, perhaps. Most angst-inducing, certainly. Canada's national sport is the ancient Iroquois game of lacrosse.

Francis McInerney,
principal,
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US

Unleashing competitiveness

From Mr Séan Rickard.

Sir, Stephen Roach's Personal View ("Europe's dilemmas revisited", May 27) makes the fair point that a single currency does not of itself provide all the answers to the EU's competitive needs. But the competitive forces it will unleash by completing the single market are likely to drive many businesses to greater price competitiveness and efficiencies, particularly in the financial sector.

I also take issue with Mr Roach's focus on the EU's relatively high labour costs and apparent low levels of investment in information technology. Not only does it make little sense to talk of a country's, let alone a region's, competitiveness but also many other factors such as design, intrinsic quality, prompt delivery and service facilities contribute to a product's competitiveness.

Unlike unit labour costs these important attributes are not easy to measure, but it is very difficult to imagine in what way a single currency can do other than help drive the entrepreneurial flair so vital to their delivery.

Séan Rickard,
director, MBA programme,
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UK

Nice cash crop – but a health and environmental hazard

From Mr Archie McArthur.

Sir, Vanessa Houlder, in her article on allergens and hay fever ("When breathing is uneasy", May 21), made no reference to oilseed rape. Three years ago, around this time year, I had a cold that would not go away, but varied in its intensity from day to day.The usual symptoms of the early stages were manifest – sneezing, runny nose, sore and tickly throat, streaming eyes and a tight feeling in the chest. After putting up with it for ten days, or so, I decided to see my GP.

"Och," he said, "you should have been here two weeks ago with the other victims of oilseed rape-related hay fever." Looks lovely from a distance, so it does, but it's pretty ugly up close. And it gives off a vapour, not pollen, so I'm told. And the farmers are now growing two crops a year, of an even more virulent variety.

Why? Because it's an EU cash crop, that's why. You can find rapeseed oil on the shelves of your local supermarket, next to the other cooking oils. It's said to be environmentally friendly – research is being undertaken into its use as a substitute for petrol and diesel. I find it extremely unfriendly.

Surely, I ask myself, farmers, their families and their employees must also be affected. Well, perhaps not! I commute between Edinburgh and Glasgow and the prevailing wind is from the west. From what I can see from the train, there is an overwhelming tendency for the rape to be planted downwind of the farmhouses.

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ECONOMICS NOTEBOOK PETER NORMAN

One Europe, two systems

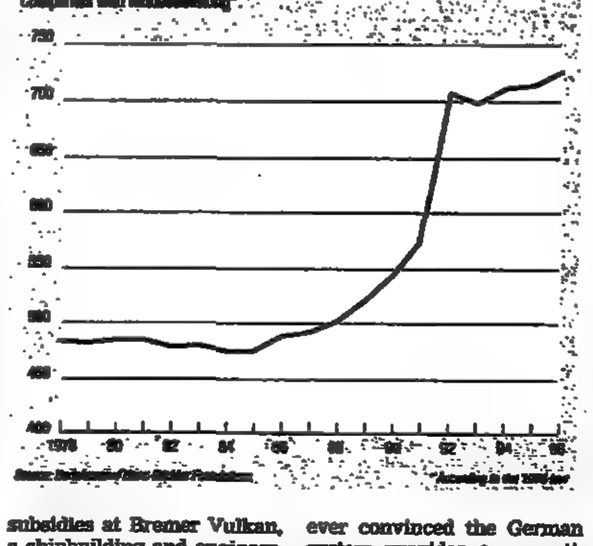
Germany's unique worker co-determination model will survive Emu but not spread far

It has become a truism that the euro and globalisation will greatly increase competition in Europe. But the challenges facing Rhenish capitalism, Germany's corporatist version of the market economy, are only slowly becoming clear.

The heightened transparency brought by the euro should throw into sharp relief the merits and demerits of Germany's special institutions of economic management and corporate governance. Already the spotlight is focusing on *Mitbestimmung*, the system of worker co-determination which under Germany's two-tier board structure gives employees and unions more say in company management than in other European Union countries.

Never a favourite among international investors, Mitbestimmung received a boost when Daimler-Benz decided to take over Chrysler of the US and incorporate the new company under German law.

The system was praised by Jürgen Schrempp, Daimler's chief executive, who is better known for chasing shareholder value. Last week it was agreed that United Autoworkers (UAW) of the US should take one of three trade union slots among the 10 worker representatives on the 20-strong Daimler-Chrysler supervisory board.



But, as Klaus Murmann, president emeritus of the German employers' association, observed last month, it would be wrong to see Daimler's incorporation in Germany as a vote for Mitbestimmung. Other factors such as generous tax treatment of losses carried forward played a bigger role.

Mitbestimmung comes at two levels: through workers' councils in factories and offices, and through the representation of workers and trade unions on supervisory boards. Thanks to a 1951 law, some 400,000 employees in 45 companies in the mining and steel industries enjoy parity of representation in their supervisory boards. A 1976 law gives near parity to an estimated 5.2m employees in more than 700 companies with more than 2,000 employees.

Two or three years ago Mitbestimmung was in bad odour. Worker directors, it was said, had failed to prevent scandals such as the alleged misappropriation of subsidies at Bremer Vulkan, a shipbuilding and engineering group that went bankrupt, or huge losses at Daimler-Benz under its previous management.

Now, with the German economy picking up and exports booming, a different view is heard. According to Wolfgang Streeck, director of Cologne's Max-Planck-Institute for Social Research, Mitbestimmung has almost certainly helped manufacturing cope with structural change over the past four years.

Professor Streeck, a specialist on comparative industrial practices, has helped produce a study on Mitbestimmung's future commissioned by the Bertelsmann and Hans-Böckler Foundations, respectively media and trade union think-tanks. The study drew on the expertise of a commission of academics and practitioners from both sides of industry.

In a consensual society such as Germany, it is not surprising that the commission concluded that Mitbestimmung is a "good thing" that can survive, with evolutionary reforms at plant and company level, in the 1990s.

But Mr Streeck makes a strong case for Mitbestimmung, not least because he has overcome his own reservations. "I am more than ever convinced the German system provides a competitive advantage for companies that implement it properly," he says.

He argues that Mitbestimmung has helped Germany's export-oriented manufacturers stay competitive by fostering a culture of co-operation in which companies have developed human capital as well as invested in plant and equipment.

One possible outcome has been Germany's slow de-industrialisation relative to other economies. He calculates 37.5 per cent of Germany's labour force worked in industry in 1996 against Japan's 33.3 per cent, the UK's 27.4 per cent and 23.8 per cent in the US.

Manfred Dammeyer, minister for European affairs in the state of North Rhine Westphalia, goes further. He claims Mitbestimmung allowed the Ruhr, alone among the heavy industrial regions of the western world, to restructure away from coal and steel without becoming a slum.

Such insights are rare outside Germany. "We must accept that abroad our labour laws are considered to be ossified and that Germany's system of worker co-determination is not regarded as a plus for inward investment," says Mr Murmann.

Foreign corporations often have problems coping with the idea of workers' councils, perhaps because they unjustly conjure up visions of old Soviet traditions. German managers can also find Mitbestimmung trying. Gerhard Cromme, chief executive of the Krupp engineering group, says there are "many advantages" in the way Mitbestimmung is practised in Germany. "What doesn't help is that the German consensus system seeks compromises that always take longer and which are rather more expensive."

Mitbestimmung can appear old-fashioned in an increasingly competitive world, with ever shorter product cycles, faster technological innovation and impatient investors. The Bertelsmann and Hans-Böckler report admitted it has been supportive of incremental innovation but appears less suited to engendering big leaps forward in technology. If Mitbestimmung has these handicaps, has it much of a future in the context of European integration?

Mitbestimmung seems sure to survive, if only because it will be protected under the proposals for a European company statute.

The compromise plan worked out after consultation between Britain's prime minister Tony Blair and Helmut Kohl, the German chancellor, could even see it being applied outside Germany. This is because the most highly developed grade of Mitbestimmung would apply in a transnational merger except where other rules had been negotiated or two-thirds of the workers were to vote against it.

More important, however, will be the further integration of the European single market and economic and monetary union: developments that will make it much easier to compare how the German, British, French and other models of corporate governance work.

In these circumstances, the IW economic institute, which is affiliated to the German federation of industry, doubts whether Mitbestimmung will catch on elsewhere. "It cannot be expected that Mitbestimmung in its generous German form will become a successful export to the rest of Europe," it says.

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday June 1 1998

Jospin's good beginning

Lionel Jospin has started well as prime minister of France. Far from being squeezed, like many previous holders of the job, between the country's powerful presidency and petulant populace, he has manoeuvred around President Jacques Chirac and stands as high in the opinion polls as when he was elected a year ago today.

Yet France lags in a number of reforms that are vital for the country to hold its place in tomorrow's Europe of the single currency. Political skill and economic luck, in the form of growth rising this year to a forecast 3 per cent, have carried Mr Jospin along so far. But, against the day when that luck runs out and growth turns down, he needs to use his skills to accelerate those reforms now.

The French public rate Mr Jospin highly for his manner and method. They seem to like his deft handling of cohabitation with the Gaullist president. Mr Jospin has rarely reacted to Mr Chirac's criticism of his domestic policies. He has given the president free rein to foreign policy – perhaps too free in the fight over the European central bank – though he and his adroit foreign minister, Hubert Vedrine, can claim credit for improving relations with the US and abandoning neo-colonialism in Africa.

Luckily, too, for Mr Jospin, the centre-right parties have been plagued with internal division and corruption scandals that have quite eclipsed his own innate difficulties in running a coalition that contains socialists, communists and Greens.

In France, all economic policy boils down to employment policy, and how to reduce the country's jobless rate, still as high as 11.9 per cent. Mr Jospin's big "contribution" to this has been his new law to reduce the regular work week from 39 hours to 35 over the next two to four years, without pay cuts, in the hope of creating new positions that public subsidies will help employers fill. Factors such as wage restraint and productivity increases can enable companies to cut hours and thrive, but not legislation that disregards these factors.

Yet the "35 hour" law, economically unsound as it is, has had the political advantage of being a big enough sop to the left for Mr Jospin to advance quietly on other fronts. To varying degrees, France Telecom, the CIC bank, the GAN insurance group, Aerospatiale and Air France have been, or are to be, privatised. Mr Jospin came into office jacking up the minimum wage and corporation tax, but has since made overtures to business over stock options and venture capital.

The case for further reform is overwhelming, particularly when a buoyant economy should make restructuring more palatable. Mr Jospin should respond faster to his European partners' pleading to let French arms and aerospace groups forge cross-border alliances or mergers. He should stop dragging his feet over fiscal incentives for private pension funds, needed to complement the cash-strapped state retirement fund and which are easier to set up in good economic times when extra saving does not cramp consumption.

Finally, he should reap what he sowed with his European employment initiative. Mr Jospin's first foreign move was to put the jobs issue squarely on the EU agenda. As a result, every EU leader is to bring his own jobs plan for discussion to the Cardiff summit in two weeks. Mr Jospin will have no excuse for not listening to what works better elsewhere.

Crime on the line

The suspended prison sentence imposed in Bavaria last week on the former head of an internet service provider shows the strength of feeling running against criminal cyber-porn.

The judgment, against Felix Somm, the former head of the German division of CompuServe, seems barely consistent with German federal law. This exempts service providers from responsibility for the content of internet pages, although it requires them to take reasonable care to avoid passing on illegal or pornographic material.

More important, the sentence seems inconsistent with common sense. Even an organisation as large as CompuServe could hardly monitor all the 320m pages on the web. If this duty were enforced against smaller competitors, the jails would soon be overflowing with internet executives.

Yet the extreme forms of internet pornography clearly pose a problem, as do other cyber-crimes such as fraud, copyright theft and the evasion of taxes. In the US last year, Congress tried to take the same line as the Bavarian court – that internet providers should be liable for indecency in web pages. But in June the Supreme Court ruled that this would be unconstitutional. Last month a US district court said that service providers could not be held responsible for libellous content either.

These rulings underpin the growing belief on both sides of the Atlantic that the internet must be regulated with a light hand, by voluntary codes or by co-operation between governments on legal and technical issues such as data protection, taxation and copyright.

Much work is now under way, for example by the International Chambers of Commerce in Paris and the European Commission, to clarify such cross-border issues. Meanwhile, service providers are taking steps to co-operate in blocking illegal material from their networks. They are also exploring market solutions, such as special filtered services for children or squeamish adults.

Such measures, combined with the enforcement of national laws against those who originate cyber-filth, are the best hope for curbing the excesses of the internet – without harming its vital principle of freedom. A heavy-handed crackdown on respectable middlemen is not the answer.

A star's turn

While the eyes of the world have been on Indonesia, a much quieter transition has been under way elsewhere in Asia. Joseph Estrada, a former film star, was officially confirmed on Friday as the Philippines' new president.

That the election could be held and won by a candidate not favoured by the outgoing government is a credit to a country which, not too long ago, laboured under a Suharto-style dictatorship. Fears that Fidel Ramos, the outgoing president, might abandon the election or that his party would resort to massive cheating have happily proved unfounded.

Mr Ramos has wrought a transformation in the Philippines. His economic reforms have strengthened its hitherto feeble development prospects. Now, despite pressure on him to bend the constitution and stay, he is carrying out his obligation to withdraw after a six-year term. That cements democracy and is a contribution as important as his economic reforms.

Yet democracy also means that voters sometimes make bad choices. The immediate impression is that they have done so in this case. Mr Estrada's swashbuckling film career and erstwhile playboy lifestyle have made him a champion among the poor. In the real world of politics, he comes across as less impressive: an old-style leader who could easily drift back into cronyism. Among his supporters are tycoons who did well out of the Marcos era. They must be itching to regain influence in government.

Much will depend on the quality of his cabinet, and here there are some good signs. Edgardo Espiritu, finance minister-designate, is a banker who supports continued economic reform and privatisation. Gabriel Singson, the highly respected central bank governor, is staying on to complete his term. Provided Mr Estrada gives such advisers free rein, all should be well.

While the Philippines has escaped the worst of the Asian crisis, it is not secure. Growth has slowed and reform is not complete. An overhaul of the creaking bureaucracy and a more rational policy on agriculture are urgently needed. If Mr Estrada ignores these priorities and falls instead into cronyism, much of what Mr Ramos has created could be lost. The fate of Mr Suharto is a warning to those who follow that course. Mr Estrada should take it to heart.

Teething troubles in store

The European Central Bank faces a difficult early life as it combats uncertainties over statistics, policy, and relations with national central bankers and politicians, writes Wolfgang Münchau

Today's launch of the European Central Bank marks the start of the biggest experiment in central banking since the second world war.

Outwardly, not much will happen. The nameplate at the Euro Tower building in the centre of Frankfurt may change, and so will the letterheads. Otherwise, the ECB will take over directly where the European Monetary Institute, its secretive forerunner, left off. The internet site will eventually get updated, but all the changes will have to wait at least until tomorrow because today happens to be a German holiday.

This outward calm belies the frantic activity that lies ahead for Wim Duisenberg, the first European central bank governor, and his 400 staff over the next seven months.

The ECB will take over policy decisions from the central banks of the 11 founder members of European monetary union and insiders say there is not much time to complete the necessary preparations to get the single currency off to a safe start on January 1. Some staff have been told to cancel their summer holidays – almost unprecedented for a European institution.

Almost forgotten is the bitter aftertaste left by Mr Duisenberg's nomination at the European Union summit in Brussels on May 2, where he was forced to declare "voluntarily" that he would retire early from his eight-year term. Fears that his humiliating statement would damage the credibility of the ECB – which seemed plausible at the time – now look distinctly wide of the mark.

The nomination of the six executive board directors – Mr Duisenberg, Christian Noyer as vice-president, plus Otmar Issing, Tommaso Padoa-Schioppa, Eugenio Domingo Solans and Sirrka Hämäläinen – was well received by the financial markets. The six central bankers have been working together in the Emi for years, and are mostly on first-name terms.

But credibility and internal harmony are not the only qualities needed to make a successful central bank. One essential ingredient is transparency. Respected central banks are relatively transparent, not in the sense that the markets can predict their every interest rate move, but in the sense that the outside world understands how and why they act as they do.

At present, perceptions of ECB policy priorities are confused, even though the Maastricht treaty is clear on the ECB's mandate – the relentless pursuit of price stability.

Many analysts believe that the bank will focus on the weakest countries in recognition of the member states' uneven economic performance and because political pressure may force it to do so. This view would suggest that the ECB might tolerate permanently high levels of inflation – but this is unlikely.

Uncertainties abound. Mr Issing, formerly of the Bundesbank and most likely to take over as the ECB's chief economist, recently acknowledged that the quality of euro-wide statistics may not be as good as it should.

Monetary statistics – one of the most important data series for central banks – could turn out to be misleading, at least initially. One senior German central banker said: "On the whole I am quite optimistic about the ECB, though I am a little surprised that they have not made any more progress on this matter."

The data, such as M3, a measure of broad money, will be available from the summer, but nobody will know how reliable they are. Top ECB officials have therefore decided to adopt initially two complementary policies: German-style monetary combined with a UK-style inflation forecast.

At his confirmation hearings in the European Parliament last month, Mr Duisenberg admitted this mixed bag was not ideal. He said: "That makes the explanation of the policies you are pursuing more complicated and more difficult. It makes it more complicated to see through, but it has to be done."

Also undecided is whether the ECB will adopt minimum reserve requirements – deposits that banks must place at the central bank to reflect the size of outstanding loans. Minimum reserves are a potentially divisive issue. Many central bankers favour them because they tie commercial banks to the central bank and temper their loan policies. But the requirement can drive business away from financial centres because commercial banks in general do not earn interest on the deposits.

London, where there are no minimum reserve requirements, has benefited from their absence as business has transferred from Frankfurt. If and when the UK enters Emu, the playing-field will be level again from a continental perspective. But business could leave the euro-zone altogether. A compromise could be to compensate banks for any losses by paying market interest rates on the deposits.

A third uncertainty concerns the relationship between the ECB and the national central banks. Power will be more dispersed between the centre and periphery than in other central banking systems and it is not clear who will prevail.

While the ECB will be responsible for setting policy, the national central banks will conduct the bulk of money market operations and foreign exchange intervention. The ECB's policy-making council, which will decide interest rates, will consist of its executive board (based at its headquarters) and the heads of national central banks.

At Germany's Bundesbank, on which the ECB is modelled, eight executive directors face nine regional central bank chiefs. At the ECB, the relationship is six against 11 – and as more countries join Emu, the majority of the outsiders will become larger.

The national central banks will also retain much larger staffs than the ECB. The Bundesbank and the Bank of France both have more than 10,000 staff, while the ECB will only increase its employees to about 500 by the end of the year.

Many of the national bank employees are involved in in humdrum processing and logistics, while the ECB employees will be largely decision-makers.

But the statisticians and economists retained by the banks may play a significant role in the intelligence-gathering behind policy formulation. For example, at the Bundesbank Mr Issing oversaw a department of about 60 economists. When he moves to the ECB – presumably in the same function – his team will probably be smaller.

Daniel Gros, director of the Centre for European Policy Studies, a Brussels-based think-tank, is concerned that the national bank "outsiders" could gang up on the insiders by forming coalitions. This could impede efforts to gear policy towards the euro area as a whole, with a group of countries pushing their own self-interest.

A counterweight to this concern is the observation that European central bankers have a long history of co-operation and in most cases a tradition of central bank independence. Whatever their perceived national priorities, their interests lie in making sure the ECB is a success.

> **The real test will come when the worlds of politics and central banking collide. Will the ECB be able to stand up to European Union finance ministers?**

The central bankers themselves are reasonably optimistic. The economic outlook for Europe is benign. Growth is finally picking up without any signs of inflationary pressures. The member states of Emu have also shown a surprisingly high degree of economic convergence in fiscal and monetary policy.

The real test will come when the worlds of politics and central banking collide. Will the ECB be able to stand up to EU finance ministers? The Euro-11, the group of finance ministers of Emu member countries, may ultimately develop into an effective counterpart to the ECB but this, too, may take time. Yet unlike national central banks operating in national political systems, the ECB has no direct counterpart in politics at present.

Support from Europe's citizens will be critical. The Bundesbank has benefited from people's support for its role as the guardian of the D-Mark. Winning over the public requires a consistent approach to communication and information by ECB top officials.

Here lies the greatest risk for the ECB. Central bankers are not by nature the most assiduous of communicators, although the US Federal Reserve and the Bundesbank have often been run by central bankers with fine-tuned political antennae, such as Alan Greenspan and Karl Otto Pöhl. This is a skill that Mr Duisenberg will need to demonstrate.

At his confirmation hearings, Mr Duisenberg ruled out the publication of minutes of the council meetings – a practice common in the US and the UK. Instead the ECB will run a cabinet-style system. Every member is expected to represent the central bank's agreed line to the outside.

The Bundesbank pursued its information mandate through endless visits and speeches, in which officials explained policy to many sections of society.

The diverse power structures of the EU will make communication more difficult for the ECB. Mr Duisenberg said the launch of the single currency would mark "a new age" for Europe, not just for its economy but also for its politics. The ECB may be independent of politicians but to succeed it will have to be acutely politically sensitive or risk a confrontation that it may not win.

OBSERVER

Milking Mandela

British premier Tony Blair seems to have an endless store of stunts to enliven the dying days of the UK's European Union presidency. His latest wheeze is to invite President Nelson Mandela to the EU summit in Cardiff in two weeks' time.

The Brits insist that it was Mandela who asked to go to the talkfest so that he could thank Europe for helping South Africa's transition to a multi-racial democracy – and, while he's about it, to inject much-needed pressure to finalise a free trade accord.

EU transport commissioner Neil Kinnock and his MEP wife Glenys – both friends and fans of Mandela – have also been applying pressures behind the scenes.

Downing Street has been happy to oblige because Cardiff – supposedly the crowning moment for the British presidency – risks becoming bogged down in arcane disputes about money, enlargement and a soul-stirring debate on national employment programmes. Mandela has the "star" status to liven up Saturday lunch.

That, at least, is how the Brits see it. Not so in Brussels or Bonn, where the word is that Downing Street is once again thinking more about newspaper headlines than problems in Europe.

Chancellor Kohl, desperately seeking re-election, wants to have a serious discussion about money and Germany's bid for a rebate on massive contributions to the EU budget. Other countries want to see a big push on reforms of the Common Agricultural Policy and regional aid to prepare for eastern enlargement.

For them, Mandela is a distraction. For Blair, he's the main man.

Square deal

Those hard-faced International Monetary Fund officials who go round the world delivering budgetary pain don't expect recognition and popular acclaim – it's as good a way as any of avoiding disappointment.

But not only is Poul Thomsen, the IMF's top man in Romania, at serious risk of some public gratitude if he sorts out the country's current mess: he might even get a bit of immortality.

According to state news agency Rompres, prime minister Radu Vasile is perfectly happy that the square in front of his office is called Victory Square. It has a nice ring to it.

But he's willing to change it – and name it after anyone who can sort out the state's finances. "I vow to name the square after Thomsen or anyone else offering a comprehensive solution to this issue," he has told the nation.

Thomsen is expected in Romania this month for a chat about the reform programme and renewed IMF credit: a $410m stand-by accord is about to expire.

With foreign debt at $8bn, and $7bn in arrears of payments to the state and between companies, a solution is likely to cost more than a couple of new nameplates and some overtime round at the state map-makers.

Bush ranger

There is nothing like summitry to energise the lobbyists, and in the tiny pantheon of Americans who command real pull in China, no one outranks ex-president George Bush.

So Observer was not too surprised to learn that Bush is to beat President Clinton to the Middle Kingdom. The ex-president who, despite his sharp condemnation of the 1989 Tiananmen Square massacre, is somehow still regarded as a "friend of China", is due to arrive on June 7 to lobby for a business licence for Chubb, the US insurance company.

This is 17 days before his successor rolls up for the summit, which is partly intended to signal that the two countries have put the post-Tiananmen row behind them.

The fact that Bush – the president who imposed sanctions on China after Tiananmen – is now championing the cause of market access provides a lesson in how quickly the world turns.

Clipped hedge

Hedge fund managers can afford to be generous these days, even towards those Asian leaders they have upset so badly.

Julian Robertson – whose Tiger fund is among the world's largest hedge funds, and which made oodles of money by selling Asia last year – even managed at the weekend to be marginally kinder about Dr Mahatir Mohamad, Malaysia's irascible ruler, than Mahathir has been about Robertson's fellow hedge fund manager George Soros.

"Mahathir has been very wrong and I think he has made kind of a fool of his country, by his statements about Soros," said Robertson. "It is sort of tragic in a way because Mahathir has done a very good job of advancing a rather fabulous part of the world."

In a moment of introspection, Robertson did admit that the fees of as much as 20 per cent of profits typical in his business were "kind of ridiculous pay". He added: "We realise we are overpaid and, uh, we are just determined to continue to do it." Wonder what Mahathir will make of that.

Initial failure

The European Union has put Croatia on notice to improve its record on the resettlement of refugees from the civil war in former Yugoslavia or lose its trade benefits. The problem lies with the effectiveness of the Croatian Refugee Assistance Programme. One European diplomat in Zagreb says the acronym for the initiative says it all.

The Financial Times

100 years ago

Insults To Her Majesty
Hong Kong, 31st May. Reuter's correspondent in Manila says it is impossible for the Americans to occupy the city until the arrival of troops from the United States. These are expected to reach here in the middle of June. Meanwhile nothing is being done. The anti-British demonstrations are becoming more pronounced in character. Portraits of Queen Victoria have been insulted. Foreigners are preparing to take refuge at Cavito. Admiral Dewey promised to refrain from bombarding Manila on condition that the Spaniards did not strengthen the defences. But on 22nd May it was observed that the Spaniards were violating the agreement, and Admiral Dewey fired a shot as a warning.

50 years ago

U.S. Incomes Overspent
Washington, May 31. One of every four families in the United States will overspend its income heavily during the next 12 months. That is the conclusion of the Federal Reserve Board based on a survey of consumer finance and buying plans. The survey finds a general willingness to use savings or credit to increase spending above earnings, with veterans the heaviest spenders.

FINANCIAL TIMES
MONDAY JUNE 1 1998

THE LEX COLUMN

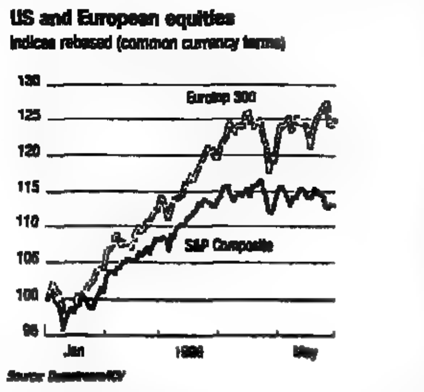
Fellow Travelers

It seems only yesterday that Japan's financial houses were going to sweep the world before them. How the tables have turned. Travelers' expected deal with Nikko Securities will give the Japanese broker a 51 per cent stake in their joint venture. But this looks mainly a face-saving measure. The US group will be the senior partner. Not only will it provide the joint venture's chief executive, but it will also take a big stake in Nikko itself. And whereas Travelers will gain access to the Japanese market, Nikko will not gain access to the US in return.

Japanese brokers have been brought low by the country's economic debilitation. Few are fit to face the competition unleashed by "Big Bang". Nor, with the possible exception of Nomura, have they built much of an international presence. On the other hand, they still have good corporate client lists and retail distribution at home. Travelers' interest is mainly in the former; and, indeed, the potential to combine its financial expertise with Nikko's customers looks promising. Preferential access to retail distribution should be a bonus.

Of Japan's other Big Four brokers, Yamaichi has already bitten the dust – with its carcass being picked over by Merrill Lynch. Nomura is probably strong enough, especially after its alliance with Industrial Bank of Japan, to resist foreign attentions. But what about Daiwa? A link with Morgan Stanley Dean Witter or J.P. Morgan, both of which need to boost their presence in Tokyo, might make sense.

US and European equities
Indices rebased (common currency terms)



German capitalism

So, Allianz plans to join the select group of German companies listing shares in the US. Add that to last week's revelation that its "hidden reserves" exceed DM100bn and it looks as if the former high priest of German corporatism is converting to Anglo-American shareholder value. A dam has been breached. It is probably only a matter of time before most of Germany's corporate elite is adopting international accounting standards and considering listing in New York.

Daimler-Benz's effective takeover of Chrysler has already been a wake-up call to corporate Germany. It has demonstrated the advantages of easy access to US capital markets. Chrysler shareholders would probably not have accepted, say, Volkswagen's Frankfurt-listed shares as readily as they took Daimler's US-listed ADRs. As an acquisition currency, those ADRs helped overcome reluctance to own shares in a diversified German industrial group and got around restrictions on some second-tier investment funds from holding non-US shares.

Moreover, by broadening its investor base, corporate Germany should lower its cost of capital. And for companies like Allianz – which have traditionally had nobody to call them to account – a bit of hard-nosed scrutiny from international investors will hardly hurt.

London Stock Exchange

The London Stock Exchange is too relaxed. While its cousin, Liffe, has been battling Frankfurt's DTB for dominance of Europe's derivatives markets post-Emu, the LSE does not even realise that the euro poses a threat. The LSE's approach to Emu, as revealed last week, is to get its systems ready so that UK stocks can be traded in euros if need be. Such technical measures are fair enough as far as they goes, but they do not go very far. The LSE has no obvious strategy for becoming the central market for stocks throughout the euro-zone.

This is a pity. True, it has until now been hard to attract continental European companies to London because they have established local bourses to turn to. But this is yesterday's thinking. The euro could easily change the rules of the game. In a single European capital market, it will not make sense to have a dozen or more exchanges. Trading will tend to gravitate to the largest bourses, which will enjoy economies of scale and lower costs.

London has a natural advantage as Europe's largest exchange. But it cannot just wait for the business to fall into its lap. Unless it discovers a little vision and develops a proper strategy, Frankfurt might just steal a march on London. After all, it too has its advantages – not least being at the heart of the euro-zone rather than on the periphery.

Axel Springer Verlag

Axel Springer's interest in Mirror Group seems serious. But would buying the British media group actually be sensible?

One worry is that the Germany media company would be taking on more than it could chew. Assuming a take-out price of 275p a share – an 11 per cent premium to the current speculation-inflated price – Mirror's shares would go for £1.25bn. Adding debt would lift the bill to £1.75bn. Since Springer, capitalised at £1.8bn, is sitting on £300m of cash, net debt to market value following the acquisition would rise to a stretching 80 per cent. Interest cover would be under three – uncomfortably low even for a cash-generative media company.

Unsurprisingly, the speculation is that Springer would keep the purchase cost down by carving the group up – keeping the Mirror's national newspaper titles and selling the rest. That would certainly make more sense than trying to finance the deal by boosting the Mirror's operating margins which, at more than 20 per cent, are already among the sector's highest. Indeed, given that the Mirror's current weakness is due to excessive cost-cutting, margins could need to narrow.

This raises a second worry: that buying Mirror would not add value for Springer's shareholders. Assuming perhaps £10m cost savings from bulk buying of paper and print, forecast free cash flow in 1999 of some £120m would yield a return on investment of 7 per cent. This may look not far short of a decent return. But given Mirror's dubious growth prospects, it is hardly exciting.

Changes in Europe boost central bank independence

By Robert Chote in London and Wolfgang Münchau in Frankfurt

The march of the independent central bank for Europe takes two important steps today, with the official establishment of the European Central Bank and the formal granting of statutory independence to the Bank of England.

Since 1989 more than 25 countries have substantially upgraded the legal independence of their central banks. It is a vital tenet of modern economic orthodoxy that interest rates should be set by unelected technocrats rather than vote-seeking politicians.

The official establishment of the European Central Bank marks the final round of preparations for the launch of the single currency from next year. The monetary policies of participating countries are already being co-ordinated, but it will be another seven months before the ECB begins formally setting a single European interest rate.

The ECB's executive board, headed by Wim Duisenberg, its president, will hold its first meeting tomorrow to share out the top jobs between the six executive directors and to decide its administrative set-up.

The board will also prepare the first meeting of the ECB's council, which includes the six executive directors and the 11 national central bank governors. It is due to meet on June 9.

In the next seven months, the ECB will have to settle a number of unresolved issues, including the choice of policy targets, the operation of Target, the payments system for the euro area, and minimum reserves.

The new central bank will take over in all but name from the European Monetary Institute. It will remain in the same building in central Frankfurt. Most of the EMI's 400 staff, to be increased to about 500 by the end of the year, will also move over.

In the Bank of England's case, its monetary policy committee has already been setting interest rates for a year, in pursuit of a 2.5 per cent inflation target set by the government. The committee meets again this week, with rates expected to remain at 7.25 per cent.

From today, the Bank's autonomy has a statutory basis as the 1998 Bank of England Act comes into force. This formally establishes the monetary policy committee, gives the Bank legal power to collect information and places its funding on a formal basis.

The Bank's Court of Directors is also reformed today, with new powers to oversee the activities of the monetary policy committee. Five new non-executive directors take their posts, broadening representation on the court to different sectors of the economy and parts of the country.

Like all independent central banks, the ECB and Bank of England share common challenges. These include reconciling political independence with democratic accountability and promoting a sensible mix of monetary and fiscal policies, with the latter still in the hands of governments.

Independence for bank, Page 8

India and Pakistan pledge to avoid a nuclear arms race

By Mark Nicholson in New Delhi, Farhan Bokhari in Islamabad and Stephen Fidler in Washington

India and Pakistan sought yesterday to ease international alarm at their nuclear rivalry by pledging to exercise restraint and avoid a nuclear arms race.

But tensions persisted as Pakistan's foreign minister accused India of planning new nuclear tests in the first half of July, a charge the Indian government rejected as absurd.

The United Nations Security Council condemned Pakistan for conducting a test on Saturday that Islamabad said was its sixth in less than a week.

Some experts doubt whether Pakistan really detonated five devices last Thursday and say there may only have been one test.

US officials reiterated their wish to see no more tests. "We have reason to think that these two countries, as they ponder the mistakes they have made over the last couple of weeks, will understand that they have not enhanced their security. They have diminished it," Strobe Talbott, US deputy secretary of state, told NBC's *Meet the Press*.

The Indian government tried to calm the atmosphere by offering to formalise its promise to desist from more nuclear tests. It repeated its call for a pact with Pakistan ruling out the first use of nuclear weapons.

A foreign ministry statement said that Pakistan faced no threat from India and that New Delhi had "always desired to pursue the path of peace and of comprehensive and constructive dialogue" with Pakistan.

General Jehangir Karamat, the head of Pakistan's politically influential military, likewise urged both countries to resist a nuclear arms race and temptations to fuel tensions with "unnecessary rhetoric", adding: "This new balance in the military equation could lead to restraint and rationality by learning from the painful process the US and USSR had gone through in the Cold War era."

However, while India held out the prospect of talks with its neighbour, Atal Behari Vajpayee, India's prime minister, ruled out foreign mediation to bring the two sides together.

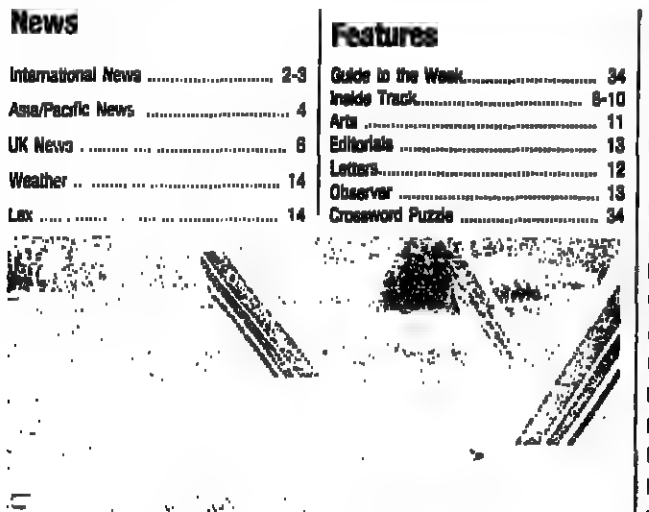
"India and Pakistan have to resolve their differences on a bilateral basis through a dialogue based on the assessment of geo-strategic realities."

Mr Vajpayee's remarks appear to stem from Indian fears that foreign concern over the Indian-Pakistani nuclear stand-off could prompt attempts to "internationalise" the issue of Jammu and Kashmir, the Himalayan territory over which both sides hold claims and the site of an eight-year-old insurgency.

Pakistan has long sought, and India robustly opposed, mediation by the United Nations or other international bodies in the dispute over Jammu and Kashmir, the cause of two of the three wars between India and Pakistan since independence in 1947.

Markets hope for bold budget, Page 4

CONTENTS


Grounded: France was last night braced for a strike by Air France pilots which threatens the national carrier's financial recovery Page 2

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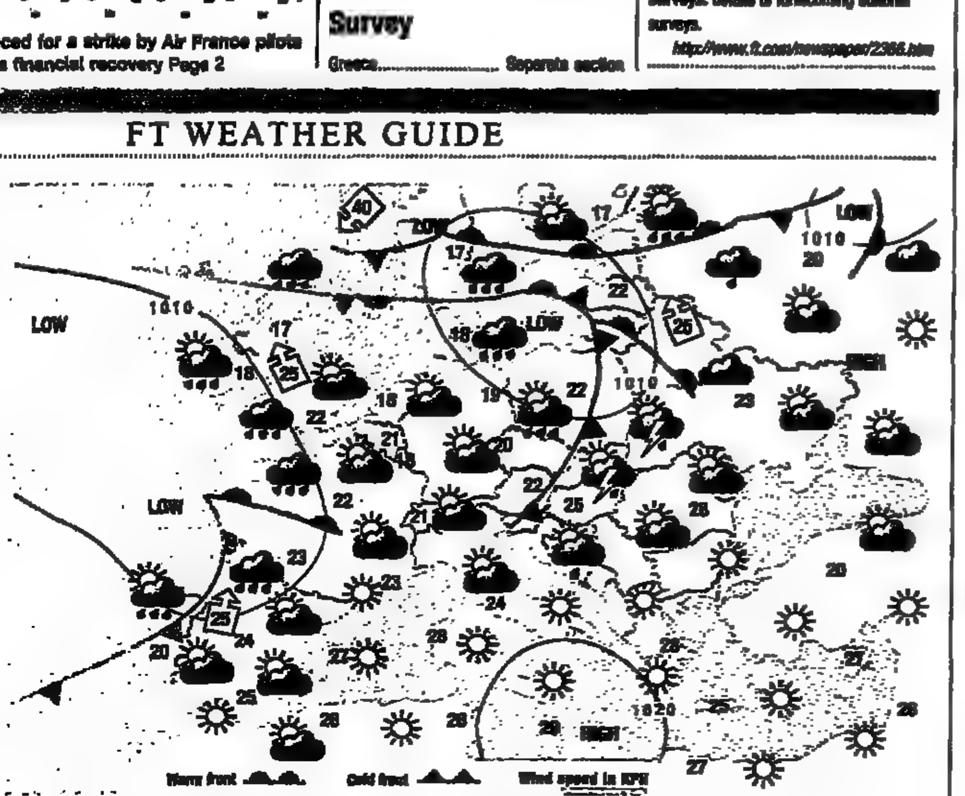
FT WEATHER GUIDE

Europe today

From the Baltic to north-western Russia, there will be showers or longer spells of rain. South-western parts of Scandinavia will be unsettled with rain. The western European fringe will also have rain. Central and much of eastern Europe will be fine with sunny spells, although eastern Germany, Poland and the Czech Republic will have some thundery showers. The Mediterranean will be generally sunny and warm, apart from rain and showers over the Iberian peninsula.

Five-day forecast

North-western Europe will start unsettled with spells of rain, but it will become drier. Northern and eastern Scandinavia will become cloudy with showers, but it will turn warmer. The Iberian peninsula and western France will have heavy showers. South-eastern Europe and the Mediterranean will continue to be warm and sunny.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

Maximum Celsius

City	Conditions	°C
Abu Dhabi	Sun	39
Accra	Thunder	29
Algiers	Sun	28
Amsterdam	Fair	18
Athens	Sun	28
Atlanta	Thunder	35
B. Aires	Fair	14
B.ham	Shower	20
Bangkok	Rain	34
Barcelona	Fair	23
Beijing	Rain	27
Belfast	Shower	17
Belgrade	Fair	27
Berlin	Shower	19
Bermuda	Shower	28
Bogota	Thunder	19
Bombay	Sun	33
Brussels	Shower	21
Budapest	Fair	28
C.hagen	Shower	18
Cairo	Sun	31
[illegible]	Fair	32
Cardiff	Shower	[illegible]
Casablanca	Fair	23
Chicago	Sun	23
Cologne	Fair	20
Dakar	Sun	28
Dallas	Sun	37
Delhi	Sun	34
Dubai	Fair	38
Dublin	Shower	16
Dubrovnik	Fair	23
Edinburgh	Rain	16
Faro	Cloudy	21
Frankfurt	Shower	21
Geneva	Fair	21
Gibraltar	Fair	24
Glasgow	Shower	17
Hamburg	Rain	17
Helsinki	Fair	17
Hong Kong	Shower	31
Honolulu	Fair	31
Istanbul	Fair	24
Jakarta	Thunder	32
Jersey	Shower	21
Johannesburg	Sun	18
Karachi	Sun	37
Kuwait	Sun	38
L. Angeles	Sun	23
Las Palmas	Fair	26
Lima	Fair	23
Lisbon	Rain	20
London	Fair	22
Luxbourg	Fair	18
Lyon	Fair	22
Madeira	Shower	24
Madrid	Fair	24
Majorca	Sun	27
Malta	Sun	29
Manchester	Shower	20
Manila	Fair	35
Melbourne	Fair	16
Mexico City	Fair	31
Miami	Thunder	[illegible]
Milan	Fair	25
Montreal	Fair	19
Munich	Shower	20
Nairobi	Thunder	29
Naples	Sun	26
Nassau	Fair	32
New York	Thunder	26
Nice	Sun	23
Nicosia	Sun	27
Oslo	Thunder	17
Paris	Fair	22
Perth	Shower	21
Prague	Shower	20
Rangoon	Thunder	30
Reykjavik	Fair	10
Rio	Fair	27
Rome	Sun	24
S. Frsco	Sun	21
Seoul	Rain	26
Singapore	Thunder	33
Stockholm	Fair	17
Strasbourg	Fair	22
Sydney	Sun	21
Tangier	Fair	24
Tel Aviv	Sun	28
Tokyo	Fair	26
Toronto	Shower	15
Vancouver	Fair	20
Venice	Fair	24
Vienna	Shower	22
Warsaw	Thunder	22
Washington	Shower	28
Wellington	Fair	14
Winnipeg	Shower	19
Zurich	Fair	21

هكذا من الأصل

FINANCIAL TIMES
COMPANIES & MARKETS
MONDAY JUNE 1 1998
Week 23

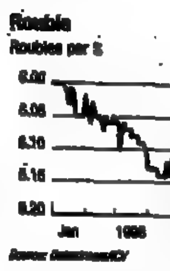
INSIDE

Fiat sales continue wholesale refocus
Fiat's imminent sale of Sestriere, the ski resort, is no less symbolic than last week's disposal of its majority stake in the L3,000bn ($1.7bn) Snia BPD chemicals and biomedical group. Both moves are part of Fiat's garage sale of its diverse portfolio begun in the early 1990s, when the group decided to refocus on its core automotive and transport arms. Market Movers, Page 17

Baltics feel Russian knock-on effect
Although the Baltics hate being lumped together with Moscow, their former colonial master, in the past two weeks the Tallinn, Riga and Vilnius bourses have shared the vagaries of Russia's stock market. Emerging Markets, Page 16

Sisters prepare Fomento buy-out
One of Spain's biggest deals was called off on Friday as the warring Koplowitz sisters, who control Fomento de Construcciones y Contratas, the building group, began talks to permit one of them to buy out the other. Page 19

All eyes on Russia and Japan



Policy makers' actions are set to dominate currency markets this week before US labour market data are released on Friday. Though the main focus will be on Japan, analysts will also watch to see if Moscow's successful start at shoring up confidence in the rouble at the end of last week holds. If the IMF provides more funds, Russia's programme will appear more credible. Currencies, Page 24

JAL sees loss soar to Y94bn
Japan Air Lines, one of the world's largest airlines, posted net losses of Y94.2bn ($680m) last year, up from Y9.2bn last time. The company blamed one-time write-offs from its hotel and resort business and flagging domestic demand, and forecast a return to profit this year. Page 19

ECB board to hold first meeting
Stocks are set for a slow start to the week, with 12 bourses closed for the Whit Monday holiday today. Euro currency students will watch out for reports of the first European Central Bank board meeting in Frankfurt tomorrow. Equities, Page 25

Japan moves to end withholding tax
The Bank of Japan and parts of the Ministry of Finance have started campaigning for the abolition of Japan's withholding tax, as shady tax avoidance practices weigh on the market. Western investors avoiding the withholding tax are the driving force behind these goings on. Page 20

Orascom group to raise $65m
Orascom, the leading private sector investor in tourism in Egypt, plans to raise up to $65m from bond and equity issues as part of a capital increase to repay debts and allow further expansion of its growing tourism interests. Page 19

Indian steel group profits down 75%
Steel Authority of India, the country's biggest steel producer, has suffered a collapse in profits because of industrial slow-down and competition from Korea and the former Soviet Union. Page 18

FT GUIDE TO THE WEEK

– full listings Page 34

DIANA PAPARAZZI CASE BEGINS
The Paris-based court case against photographers allegedly involved in the car chase in which Diana, Princess of Wales, and Dodi Fayed died on August 31 last year begins on Thursday.
EURO EMPLOYERS AND UNIONS MEET
Europe's employers and trade unions meet in Brussels tomorrow for a mini-summit.
BOTHA BACK IN COURT
The trial of P.W. Botha, South Africa's former president, resumes today. He is charged with not appearing before the 'Truth Commission', which wants him to answer claims that his government tortured and killed anti-apartheid activists.
SAVE OUR SEAS DAY
World Environment Day on Friday takes as this year's theme 'For life on earth: save our seas'.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Goldman Sachs looks to stock market

Intense debate over possible change in partnership structure which could value investment bank at $22bn

By John Authers in New York

Goldman Sachs, the powerful New York-based investment bank, took an important step at the weekend on the road to the possible abandonment of its partnership structure in favour of listing on the stock market.

An initial public offering by Goldman would be one of the largest ever seen on Wall Street. Analysts estimate it might go public at about 3.5 times its book value, valuing it at about $22bn.

The bank's senior partners and members of its management committee met in New York for a conference which lasted all of Friday and went on into Saturday morning in an attempt to thrash out the options for changing its capital structure.

The meeting was an attempt to build a consensus on the issue among the members of the partnership's executive committee and its operating committees – Goldman's most senior level of management.

Proposals to go public have proved divisive for the organisation in the past, and the last move to attempt an initial public offering in 1996 was voted down.

All the 190 Goldman partners will meet for the bank's scheduled annual meeting, in two weeks. Changes to Goldman's capital structure will be on the agenda, although the informal rules governing the partnership mean that a proposal to go public need not go to a vote if there is obvious opposition.

This happened in 1996, when the issue was last discussed at the annual meeting.

Jon Corzine, the bank's chairman and chief executive, cut off debate without going to a formal vote after it became clear that many new partners had strong reservations.

Mr Corzine last year repeated that a public offering was not on the agenda.

But Goldman employees suggested yesterday that the weekend meeting had strongly improved the chances that partners would vote for a change in capital structure this year.

Sentiment in favour of a stock market listing is growing among Goldman's partners, many of whom believe that with market indices and US price-earnings ratios at unprecedented levels, there may never be a better time to raise money from the equity markets.

Having a share price would give Goldman extra acquisition currency by allowing it to make acquisitions via stock swaps. This is an important strategic consideration for many partners, who have watched in the past year as the largest quoted New York investment banks have made a series of big strategic mergers.

These include the combination of Morgan Stanley with Dean Witter, the acquisition of Salomon by Travelers Group, and the subsequent announcement of the planned merger of Travelers with Citicorp.

Goldman is now the only large New York investment bank without its own retail distribution network.

Branson plans listings to fund Virgin growth

Airline, holiday and cinema interests likely to be among public offerings

By Jonathan Ford

Richard Branson intends to seek stock market listings for a number of Virgin Group companies over the next two years to help finance the growth of his increasingly diverse corporate empire.

Mr Branson, who is about to return to the London Stock Exchange with the public offering of Virgin Rail, his train operating company, after a 10-year absence, said the move was necessary to allow the Virgin Group to continue investing in start-up ventures.

"We have made a decision, bearing in mind the way the group is growing, that having outside shareholders would help us develop new opportunities by allowing us to put more money behind them," he said.

Among the companies that might be involved are Virgin Atlantic, the long-haul airline, Virgin Holidays and the group's cinema interests.

Mr Branson's renewed flirtation with public ownership represents a change of heart. He took Virgin Group private in 1988 – just two years after floating the company – because he was disillusioned at the low value stock market investors placed on the shares.

Since then, he has frequently disparaged institutional investors for placing too much importance on short-term profitability rather than encouraging companies to invest for long-term growth.

But it also reflects the changing nature of the group since Mr Branson sold Virgin Records – its original heart – to EMI for around £550m ($895m) in 1992. That money has been invested in cash-consuming start-up ventures, ranging from soft drinks to private pensions.

Until the sale of the record company, Mr Branson relied largely on bank finance, occasionally selling minority equity stakes in specific companies to strategic investors.

However, in recent years he has increasingly used venture capital investors to finance projects, notably Virgin Rail and Virgin Cinema Group. Such investors generally wish to sell their shares within three to five years, requiring the business either to be sold or listed on the stock market.

Mr Branson said the group would consider selling off Virgin Atlantic. "We have received approaches from a number of investment banks about floating the airline and obviously we are going to look at them very carefully."

However, any decision on Virgin Atlantic's future will be postponed until after the initial public offering of Virgin Rail, which is expected to come to the market in mid-July with a value of up to £250m. The group is expected to examine the possible sell-offs of the cinema and travel businesses next year.

Branson: renewed flirtation with public ownership FERGUS WILKIE

In the longer term, Mr Branson is also likely to sell off V2 Music, his new record company. V2 recently raised £80m from institutional investors through a junk bond issue – the first time a Virgin company had raised money through the capital markets.

Mr Branson, who said he would look at raising junk bond finance for other Virgin companies, said the V2 bond – which is non-interest bearing and must be repaid in eight years – would be redeemed by a sell-off of the company.

"I expect that V2 would come to the market in four or five years," he said.

Mr Branson also has a 50 per cent stake in Virgin Express, which is quoted in Belgium and the US, while Victory Corporation, the retail operation, of which Virgin has 49 per cent, is listed on Aim.

Among possible uses for the cash is a move into mobile telephones. But yesterday Virgin said no decision had been taken whether to proceed.

Fortis says 40% of Générale is within its grasp

By Neil Buckley in Brussels

Fortis, the Belgo-Dutch financial services group, believes it already has at least 40 per cent of Générale de Banque, Belgium's biggest bank, within its grasp, after its BFr409bn ($11.1bn) takeover bid was backed by the bank's directors on Friday.

That would be enough to prevent ABN Amro of the Netherlands, which has made a counterbid worth Fl 24.5bn ($12.2bn), from achieving its target of winning 60 per cent of Générale shares.

Three of Générale's main shareholders – holding company Société Générale de Belgique and two investment groups – agreed to cede their combined 33 per cent to Fortis at the outset of the bid battle.

But Fortis told Générale de Banque's board on Friday that it had received written "indications of interest" from Belgian institutional shareholders. These were enough to take its stake to 40 per cent – even though Fortis's offer is lower than ABN Amro's. That could indicate support for preserving an element of Belgian ownership of the country's most important banking asset.

Belgium's Banking and Finance Commission, the financial regulator, is expected to meet tomorrow to consider the confidential opinion issued by Générale's board, and whether it should rule ABN Amro's bid hostile.

After a six-hour meeting, the Générale board issued a "unanimous" opinion in favour of Fortis, though seven of the 28 directors were described as having "reservations on certain points".

In fact, the description masked an important split. The seven dissenters – including the six-man executive committee, headed by chief executive Ferdinand Chaffart, and one independent director – favoured ABN Amro.

Required by law to say what they would do with their own shares, however, directors said they would sell to the highest bidder – a signal to Fortis that it must increase its offer to at least the level of ABN Amro's.

Fortis has also been put under pressure by ABN Amro's introduction on Friday of a price guarantee. The Dutch bank has said it is ready to raise its own bid.

ABN Amro offered to pay up to Fl 3.00 extra per share if its share price during the offer period fell below its level of Fl 52.00 when its bid was announced. Unless its shares drop below Fl 49.00, the value of its offer (19 ABN Amro shares plus BFr9000) is guaranteed at BFr27,095 per Générale share. Its shares closed slightly below that floor, at Fl 48.70, on Friday.

Fortis's seven-for-three offer was initially worth BFr24,726, but only BFr24,143 on Friday after its share price declined.

The Dutch bank's prospectus sets a 50 per cent acceptance target for its offer, though that can be reviewed. Jan Kalff, chairman, said last week that ABN Amro would execute its offer "if it is 60 per cent or more, and we reserve the right even if it is 50 per cent".

PHILIP COGGAN
GLOBAL INVESTOR

Living with a weak yen

Not so long ago, the Japanese yen was the Charles Atlas of the foreign exchange markets, kicking sand into the face of nerdy currencies like the US dollar. Now it is the most puny of seven-stone weaklings.

The currency was more than Y350 to the dollar at the end of the Bretton Woods system and still traded at Y260/$ in 1985. Then began the relentless march that took it to Y80/$ in 1995.

But the recent reverse in the currency has been rapid; it fell close to Y140/$, and people are talking about a rate of Y150, Y180 and even Y200.

In a sense, this transformation has mirrored changes in the perception of the US and Japanese economies; American politicians used to study the Japanese – now they give them lectures.

But one does not have to look too far for an obvious motive to sell yen and buy dollars; the interest rate differential. Three-month rates in the US have been five percentage points above those in Japan for three long years and are more likely to widen than shrink.

The only recent period that saw the same differential occurred briefly in 1989, and that was also a period of a dollar revival.

If you throw in a four percentage point differential in favour of US Treasury bonds and a moribund Tokyo stock market, Japanese investors have every incentive to switch. Such a move can quickly become self-perpetuating as investors start to make a currency gain on top of the interest rate windfall, prompting them to make further yen sales and so on.

Governments have seemed fairly content to watch the yen decline. For the Japanese, with their domestic economy in the doldrums, a weaker currency has at least afforded the prospect of export-led growth; and, unlike the south-east Asian nations, the Japanese do not have massive foreign currency debts which they need to service.

For the US, a stronger dollar has helped to keep the lid on inflationary pressures and restrained the Federal Reserve from raising interest rates.

But the strains may be starting to show. While a weaker yen should in theory help revive the Japanese economy, it has failed to do so for the past three years. Meanwhile, the willingness of overseas investors to support the ailing stock market – a key contributor to the fragility of the Japanese financial system – is diminished.

In the US, the trade deficit hit $12bn in March, and HSBC expects the current account shortfall to reach 3 per cent of GDP in 1999. With congressional elections due in November, that will put pressure on the Clinton administration to push Japan to accelerate economic reform.

More immediately, a further fall in the yen may add another twist to the Asian economic crisis. As well as eroding the devaluation advantage gained last year by the likes of Korea, yen weakness puts a strain on the Chinese renminbi and the Hong Kong dollar.

Rate rises to defend the latter would put additional strains on the Hong Kong economy, which fell 2 per cent in the first quarter, whereas a Chinese devaluation might set off a competitive round of currency weakness in the rest of Asia.

If the Hong Kong authorities did give up the ghost and devalued the dollar, that would shake investor confidence in currency boards the world over, neatly passing the crisis on to Latin America.

The market has one eye, as always, on the possibility of central bank intervention to reverse the yen's decline. The problem is that the Bank of Japan's burst of yen buying at Easter failed to work.

The chances of concerted intervention must be limited because of the US Treasury's well-known scepticism about the effectiveness of intervention. (Of course, that could be just what they want the markets to think so that intervention, when it comes, will have the advantage of surprise.)

Eventually the widening of the trade gap between Japan and the US will increase pressure on the US dollar. But given the robust health of its economy, it seems unlikely that the US will have any problem in financing its deficit for the foreseeable future. Looks like we will just have to get used to the yen as a weakling.

UTILITIES SHAKE-OUT PREDICTED FOLLOWING INTRODUCTION OF COMPETITION IN DOMESTIC ELECTRICITY SUPPLY

Half of recs expected to disappear

By Andrew Taylor, Utilities Correspondent

Directors of regional electricity suppliers expect half their companies to disappear from the market within six years.

According to a survey by accountants Coopers & Lybrand, published today, the executives expect a shake-out in the sector after the introduction of competition in domestic electricity supply this September.

Directors of the 15 UK regional electricity companies expect only four to seven of the current suppliers to remain in the market after the next two or three years. The study also warns that prices and margins are likely to fall as suppliers compete to increase their market share.

A number of well-known suppliers are likely to disappear as a result of mergers and acquisitions or by "withdrawing from the marketplace altogether", it says.

US companies own nine out of 12 English and Welsh electricity distribution companies. Industry rationalisation is expected to accelerate following government proposals to split the selling of electricity to customers and the operation of local distribution networks under separate licences.

This would allow some regional companies to sell low margin supply operations to rivals, or to new entrants which want to increase their customer base to sell other products such as gas, water and telecommunication services. Suppliers likely to compete in this market include: Scottish Power; Eastern Electricity – part of the Energy Group recently acquired by Texas Utilities of the US; Norweb – part of United Utilities, which already has growing UK water, gas and telecommunications interests; Southern Electricity; and Viridian, the Northern Irish electricity group.

Some of these companies are aiming to increase their market share at an annual rate of 20-50 per cent.

The survey warns that companies which want only to hold on to existing market shares could get left behind.

Domestic competition was introduced last month for all of the country's 18.5m domestic gas customers.

So far about 4m have signed up to switch from British Gas, many of them to electricity companies which have started selling gas as well as power.

Electricity executives expect Centrica, which trades as British Gas, to retaliate by entering the electricity market when the introduction of competition for all 26m domestic power customers is completed next summer.

Coopers & Lybrand said: "In the short term the industry predicts that prices will be driven down but will then level out to only marginal differences between suppliers."

British Energy in Canadian nuclear proposal

By Edward Alden in Toronto and Andrew Taylor in London

British Energy has reaffirmed its interest in purchasing a stake in all 20 nuclear reactors owned by Ontario Hydro, the state-owned utility.

Robin Jeffrey, deputy chairman, who heads the the UK nuclear power producer's North American development team, said British Energy and its partner, Peco Energy of Philadelphia, had proposed creating a public-private joint venture to run Ontario's controversial nuclear assets.

The two companies hope to seize opportunities opened by the reform of Ontario Hydro, a debt-laden utility that holds a monopoly over the province's C$10bn (£4.2bn) electricity market.

The performance of the utility's nuclear plants, the source of more than half the province's electricity, has been steadily declining since the early 1980s.

Eight of its nuclear reactors were shut last August after significant management and safety flaws were revealed. The reactors are expected to cost several billion dollars to restart.

Mr Jeffrey, speaking at a conference hosted by the British Canadian Chamber of Trade and Commerce, said problems could be solved as the technology used by the reactors was sound.

His group stressed, however, that it had "made no formal proposals to Ontario Hydro or the state government, and we are not close to doing so. There are a number of key issues under discussion and we are still some way off doing a deal".

The Ontario government plans to introduce legislation this month allowing competition in electricity production, and is expected to allow outside investment in the power generation arm of Ontario Hydro.

Mr Jeffrey indicated that a future partnership might include an ownership stake by the Ontario government and private-sector partners, but would leave management of the reactors to the private firms.

Any acquisition of Ontario Hydro's reactors would be politically controversial. One of the most contentious issues would be the assumption of its C$32bn debt. Mr Jeffrey would not be drawn on how much of that British Energy and Peco would be prepared to accept.

Sir Bedivere trials boost Babcock restructuring

By Andrew Edgecliffe-Johnson

Babcock, the engineering group, is hoping to announce next week that it has tackled two of the most serious obstacles to the final stages of its restructuring.

The group, which refits warships and designs systems for handling cement and steel, is expected to announce progress in both its facilities management and African divisions when it reports full-year results next Monday.

The facilities management division has suffered from delays and increased costs on the to contract extend the life of the naval auxiliary vessel, Sir Bedivere.

However, the ship has now completed a successful sea trial, the last big obstacle to its handover by the group's Rosyth dockyard.

Babcock is thought to have lost about £2m on the Sir Bedivere as the cost of the project mushroomed from £42m to more than £65m, and a project which had been expected to require 150 tonnes of steel needed 900.

Another obstacle to restructuring has been overcome with the decision by John Parker, Babcock's chief executive, to abandon his attempts to sell the remaining South African construction and energy businesses.

John Parker: dropped South African plans Malcolm Watson

The African operation – which accounts for 8 per cent of turnover – will instead be retained, but has is thought to have quit the mechanical construction business responsible for its recent losses.

Analysts expect those losses to have been trimmed from £5.2m to £750,000 in the year to March.

Babcock, which announced its restructuring last June, has since sold its process division for an exceptional loss of £18.6m and closed its environmental plant in the US with further exceptional costs of £27.3m. The process and environmental businesses made trading losses last year of £17m.

Analysts expect the ongoing facilities management and materials handling businesses to report an £18m profit next week, down from £20.3m in the year to March 1997.

Bupa examines move into Chilean healthcare

By Christopher Adams, Insurance Correspondent

Bupa, the UK's biggest health insurer, is seeking partners in Latin America, one of the world's fastest growing health insurance markets.

It has approached several leading health insurers in Chile, where total spending on healthcare is 6.9 per cent of gross domestic product and annual premiums last year were $1bn (£598m). The company might acquire one of the market leaders such as Consalud or Cruz Blanca, which had revenues of £132m and £97m respectively in 1996, but may also seek minority holdings.

Chile has a highly developed private healthcare sector, with 35 per cent of the population using the private system, compared with 11 per cent in Britain.

"We're very actively looking and acquisition is an attractive way in," said Chris Lossin, director of international development. Bupa is trying to diversify away from the UK, which accounted for 58 per cent of its £1.46bn revenue last year.

It has a significant presence in the Republic of Ireland and in Spain, where membership stands at 700,000 through its Sanitas operation.

Despite the dismantling of trade barriers and the prospect of a single currency, Bupa is reluctant to expand further into Europe. Mr Lossin said health cover in continental Europe was distributed mainly by companies selling it at a loss to promote other classes of business.

In Latin America, by contrast, more insurers specialised in the health market. Several also managed private hospitals, operating in a similar way to Bupa.

Other foreign insurers have entered Chile, including US-based Cigna and Aetna. Bupa is also considering setting up in Argentina.

Explorers report big Pakistan gas find

By Robert Corzine

Two UK exploration companies and their Australian partner have made what could be a significant natural gas discovery in Pakistan.

Monument Oil and Gas, and Premier Oil, together with BHP Petroleum of Australia, said the Zamzana One well in the Dadu Concession in Sindh had encountered a 320-metre gas column.

Tim Eggar, Monument's chief executive, said it was too early to comment on the possible size of the Zamzana discovery, although he said the partners were confident that it "is a major gas discovery".

The companies intended to appraise the discovery as soon as possible to confirm the commercial viability of the reservoir and "to establish a development concept".

There is speculation that the size of the field could prove to be between one and five trillion cubic feet. If so, the find will be of strategic importance to Pakistan; along with other recent discoveries, could affect plans by Islamabad to import large quantities of natural gas, most likely via a pipeline from Iran.

Some observers believe Zamzana and other big finds, such as the nearby Bhit discovery, could put back the need for Pakistan to import gas by some five years. "Zamzana is strategically enormously important for the Pakistanis," said one industry observer yesterday. "It will really affect the pipeline dynamics."

Hardy Oil and Gas and Lasmo, two other British explorers, have also found significant gas deposits in Pakistan. Energy demand is growing strongly in the country, although the complex business and political environment can make it difficult to reach commercial agreements in the energy sector.

The Zamzana find is close to Lasmo's Bhit field and within 40 km of a pipeline which could carry the gas to either Karachi or Lahore.

The Zamzana partners say only some simple processing will be needed to bring the gas up to Pakistan's quality specification.

BHP has a 47.5 per cent interest in the Zamzana well, Monument and Premier each have 23.75 per cent and the Pakistani government owns a 5 per cent stake.

The government has the right to increase its interest to 25 per cent during the development and commercial production of the project.

COMMENT

Virgin

Virgin is a bit like a leveraged buy-out fund that has only just discovered financial sophistication. Richard Branson was so bruised by his first foray on to the stock market that, for the best part of a decade, he has stuck with bank financing. Now, though, the Virgin boss is discovering the advantages of capital markets. It would, for example, have been hard to arrange a loan with the same cash-flow profile as the recent zero-coupon junk bond for V2, Mr Branson's new music business. Equally, he will not be able to satisfy his insatiable appetite for starting new businesses without selling stakes in the more established ones via the stock market.

The quid pro quo is that the secretive Mr Branson will have to divulge more financial information and follow generally accepted corporate governance norms. With luck, he will see such disciplines as genuinely valuable rather than a necessary evil.

Multi-utility regulation

Does the formation of multi-utilities like Hyder and United Utilities require a different approach to regulation? The UK government is looking for an answer as part of its utility review. The worry is that multi-utilities might be able to pull the wool over their regulators' eyes – particularly by playing games over cost allocation.

One answer might be for the regulators to spell out precisely which costs should be allocated to which business. The snag is that the whole point of forming a multi-utility is to gain benefits from closer integration of different businesses – in areas like maintenance, billing and procurement. Heavy-handed regulation might make it difficult to drive through these efficiencies. And that, in the long run, would harm customers.

How, though, can regulators encourage such efficiencies without losing their ability to regulate? One possible approach would be to define more narrowly which of a utility's functions are the irreducible monopoly. Activities, such as maintenance – where multi-utilities want to pool costs – could be opened to competition. Then only the core monopoly would need to be regulated. Of course, for such an approach to work, the various regulators would first need to agree where to fix the boundary between monopoly and contestable market.

NEWS DIGEST

TRANSPORT

Vickers still open to late offers for Rolls-Royce

Vickers said last night it was ready to consider any further offers for its Rolls-Royce Motor Cars subsidiary, but it had had no further contact with a group of private enthusiasts led by Robert Shrimpton, the barrister. The group was reported at the weekend to be planning to mount another, last-minute offer for the luxury car maker, in time for it to be considered by Vickers' board before this Friday's shareholders' meeting.

At the meeting, Vickers' board plans to recommend that shareholders accept an offer from Volkswagen of £430m ($718m), instead of an earlier offer – also initially recommended – of £340m from BMW.

"If anybody makes a credible offer and it is in time for the board to take a view, then that's fine with us," said Vickers. "But there is more to this than simply initial purchase price – the offer must contain clear planning for the business itself."

Mr Shrimpton was unavailable for comment last night, leaving unconfirmed information that the enthusiasts' group was planning to offer £450m for the company, and make £350m available for investment. The group's claimed backers so far remain unidentified. **John Griffiths**

CHEMICALS

ICI and BASF in China venture

Imperial Chemical Industries of the UK is to invest about £100m in a joint venture with BASF, its German rival, to build one of the largest chemical plants in China. The plant, to be built near Shanghai, will produce polyurethane, a chemical used for making foam for cars, household appliances, shoes and building insulation. The total cost of the complex, due to be opened by 2004, is estimated at $650m (£390m).

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SATELLITES

Skybridge lift capacity of system

War in Bosnia, with all its ... replaced by peace in ...

SATELLITES COST INCREASED TO $4.2BN

Skybridge to lift capacity of system

By Christopher Price

Skybridge, one of two competing satellite consortia racing to build an "internet in the sky", is to increase the capacity of its system at a cost of $700m, *taking* the total cost to $4.2bn.

The additional funding is expected to come from new strategic partners in the grouping, headed by Alcatel Alsthom of France, as it proceeds. The increase in the number of satellites, from 64 to 80, will lift the network's capacity by 50 per cent.

The decision to build in much more capacity comes just two weeks after Motorola and Teledesic announced the merger of their rival multi-billion dollar satellite projects, in a move *analysts said* underlined concerns over whether sufficient demand existed for three competing systems.

Pascale Sourisse, president and chief executive of Skybridge, said the group's research indicated there would be some 400m users of "broadband" services, such as the internet, by 2005, and that satellite would be a preferred method of delivery for "a *substantial portion*" *of* business and residential users.

"Our market forecasts and the conclusions drawn from meetings we have had with telecom operators from around the world convinced us that the demand for bandwidth will be far higher than we had originally anticipated."

Some 400 engineers are already engaged in designing the Skybridge system. It has already attracted investment from Toshiba, Mitsubishi *Electric and Sharp of Japan*, Spar Aerospace of Canada, Aerospatiale of France, and Loral Space and Communications from the US.

Ms Sourisse said she expected new investors to be drawn from national telecommunications operators with which Skybridge reaches agreement on distributing its services.

The company is also looking towards a public listing on the US Nasdaq market *in 2000 for additional* funding.

Approximately 40 per cent of the satellites are expected to be in place by the end of 2001, when a limited service will begin, with all 80 satellites in place and a full service operating by a year later.

This is shortly before the time the Teledesic system, which is scheduled to cost more than twice as much as Skybridge, is due to begin operating.

There are several other satellite systems being *launched over the next* five years, aimed at different parts of the telecoms market.

Three rival consortia are involved in projects that will allow hand-held mobile phones to send or receive calls from anywhere in the world.

Another project, being pursued by Inmarsat, the international maritime satellite *organisation, aims to* provide multimedia services to the laptop computer market.

Systems are also being developed that will offer global paging services as well as in-car audio services.

Analysts estimate that the telecoms satellite industry needs to raise between $35bn and $45bn over the next five years for all the projects to be completed.

The merging of Motorola's Celestri project into Teledesic was the second big merger *in the fledgling* satellite telecoms sector in the past six months following ICO's takeover of Odyssey. Both mergers underlined the financial demands of systems that cost billions of dollars.

Fiat nears completion of systematic garage sale

As he nears his retirement, the divestment mission of veteran chairman Césare Romiti is virtually accomplished, writes Paul Betts

Market movers

Fiat, any day now, will sell the ski slopes and ski-lifts of Sestriere, the winter resort 50 miles west of the automotive group's Turin headquarters.

Although minuscule compared with the disposal last week of its controlling stake in the L3,000bn ($1.7bn) Snia BPD chemicals and biomedi*cal group, the sale of* Sestriere is no less symbolic. For decades, the resort has been the traditional winter holiday retreat of the Agnellis, Italy's leading industrial dynasty and the controller of Fiat and much else.

Both transactions are part *of a systematic garage* sale of Fiat's diverse portfolio of activities begun in the early 1990s, when the group decided to refocus on its core automotive and transport businesses.

In the 1980s, Césare Romiti, Fiat's veteran chairman, who *is due to retire this* month after 24 years at the helm of Italy's biggest manufacturing company, dreamed of transforming the group into a diversified conglomerate. Then, as conglomerates went out of fashion and large companies throughout the world started concentrating again on their traditional businesses, Fiat also changed tack.

"*In the 1980s, we diversi*fied through acquisitions," Mr Romiti once told the FT. "Now, we are no longer a conglomerate. We are concentrating on our core activities, disposing of everything that is not connected with our automotive business. There are still some things to eliminate."

As he nears his retirement, the divestment mission is virtually accomplished. First went Teletra, Fiat's telecommunications subsidiary; then Rinascente, the retail and department store group, was transferred to IFIL, the Agnelli family industrial holding.

The civil engineering activities were absorbed into the enlarged Impregilo group *with other Italian compa*nies, with Fiat maintaining a 23 per cent stake. This, too, is expected soon to go.

In the last two years, the pace of disposals has accelerated. The Prime mutual funds business was sold to Assicurazioni Generali. A *2 per cent stake in Alcatel*, the French telecoms group once part of Fiat's core of strategic shareholders, went. So did a 1.2 per cent stake in Pirelli International.

The motorway business was shed, the company managing the port of Genoa-Voltri *was sold to the Singapore* Port Authority. A 42 per cent stake in Juventus, Italy's top professional soccer team and a favourite Agnelli "toy", was transferred to IFI, the other family holding group.

So what is left? A 15 per cent stake in HDP, the industrial holding company that controls the Rizzoli publishing empire; the Fila sports wear group; and the *GFT textiles and clothing* concern.

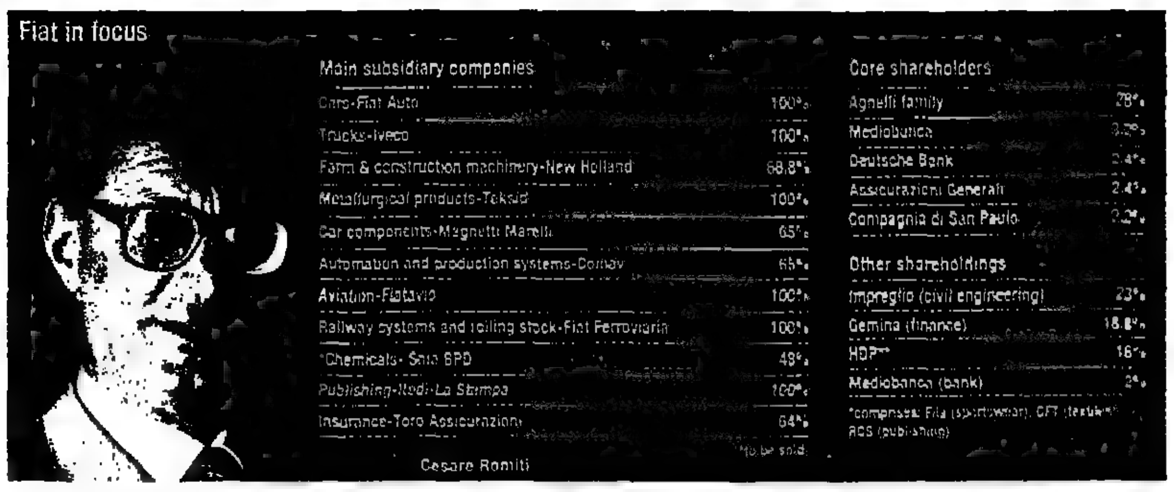
There is also a 19 per cent stake in the Gemina financial services group, once part of HDP and which Mr Romiti vainly sought three years ago to turn into a giant holding company incorporating the former Ferruzzi-Montedison agro-industrial assets. Fiat has already said it intends to reduce its stakes in these companies.

It still owns the Itedi publishing and advertising group, which in turn owns La Stampa, Turin's daily newspaper. This is likely to *stay. Fiat readily acknowl*edges that owning a newspaper has little to do with making cars, but there are sentimental links.

Giovanni Agnelli, the Fiat patriarch and honorary chairman, likes to say when asked about the newspaper: "La Stampa will remain with Fiat for at least 20 years after my death."

There is also Palazzo *Grassi, the historic building* on Venice's Grand Canal renovated at great expense by Fiat. That, too, will stay as a cultural flagship.

"We could now be called an integrated transport company," said a Fiat official.



Activities now include cars, trucks, farm and construction machinery, metallurgical products *earmarked* for the automotive sector, car components, automation and production systems, aerospace engines, high-speed trains – and insurance.

Does Fiat's 64 per cent controlling stake in the Toro *insurance company fit with* the automotive core? Mr Romiti says yes. The insurance business adds value to the automotive operations. It is, in the words of another Fiat official, "the financial services arm of the group, supporting the car, truck, tractors and other sectors".

Nonetheless, Toro these days plays a far bigger role in Italy's rapidly changing *and consolidating financial* industry than providing support for Fiat.

Last year it bought an 8 per cent stake in Banca di Roma as part of the banking group's privatisation. It is now the largest shareholder in the bank, which is in the middle of complex negotiations to merge with Banca Commerciale Italiana, the large Milan commercial bank and the most international of Italian banks.

If the merger goes ahead, it will create Italy's largest banking group with assets of more than L400,000bn. Mr Romiti last week said he *favoured a merger. Such a* tie-up would actually put Fiat at the heart of the reshaping of Italian finance and banking. IFIL's strategic stake in the San Paolo bank, now merging with IMI, the Rome-based banking group, confirms this.

If all goes to plan, Mr Romiti will be able to hand over to Paolo Fresco – the number two at General Electric *of the US, who will take over* as Fiat chairman in the autumn – a profitable company, divested of its old diversified portfolio and focused on the automotive business, with a front seat in Italian finance.

The house-cleaning completed, Fiat would then be in better shape to tackle the *challenges facing it in a rap*idly consolidating industry still digesting the implications of the Daimler Benz-Chrysler merger.

Mr Romiti recently said Fiat was well equipped to pursue its own course and was not considering any *jumbo alliances with other* car groups.

In the past, it has flirted with acquisitions and mergers with companies including Citroën, Ford, Chrysler and Renault.

In spite of all the denials, the financial markets widely expect Fiat eventually to be involved in industry consolidation.

Expectations that Mr *Fresco will focus on interna*tional deal-making are high. One leading Fiat family shareholder conceded there would be changes.

But he also cautioned: "It won't be so much revolution as evolution."

Peter Sutch to step down fron Swire Pacific

By Louise Lucas in Hong Kong

Peter Sutch, chairman of *Swire Pacific, is to step* down next May, clearing the way for James Hughes-Hallett to become the 32nd *taipan* of the British-controlled *hong*, or trading house.

Mr Hughes-Hallett, a chartered accountant who has been with Swire Pacific for 22 years, is executive director of the trading and *marine services divisions.* He is 48.

He becomes deputy chairman today, moving into the top slot next year when Mr Sutch, 53, returns to London to take up the position of executive director at John Swire & Sons, the controlling shareholder.

The Swire Pacific chair*man traditionally heads the* different operating companies too, but as part of a broader management reshuffle other executives have been elevated to deputy chairmen roles.

At Cathay Pacific, the de facto flag carrier whose single biggest shareholder is Swire Pacific, David Turn*bull takes the number two* slot. He will sit alongside Henry Fan, a non-executive deputy chairman who represents majority shareholder Citic Pacific, the Hong Kong-listed arm of Beijing's main investment vehicle.

Mr Turnbull, managing director, assumes a new role as deputy chairman and *chief executive of the airline.* He partially replaces Patrick Tsai, 70, currently deputy chairman who is retiring next month.

Another new position has been created for Philip Chen, deputy managing director who becomes chief operating officer of the airline. Mr Chen is expected to become the first local to occupy the airline's number one slot.

Aviation analysts have welcomed the elevation of Mr Chen. The big British-backed companies have been slow to appoint locals to top posts.

COMPANIES & FINANCE

Baan to open up the board

By Gordon Cramb in Amsterdam

Baan Company, the Dutch maker of business software, is to bring in more outside directors after institutional shareholders at its annual meeting on Friday attacked it for a lack of openness.

ABP, one of the largest domestic pension funds, voted against the reappointment to the supervisory board of two directors including Paul Baan, brother of Jan Baan, the company's founder and chief executive.

Paul Baan heads Baan Investment, which is the group's biggest shareholder and a conduit for some of its orders from industry.

The clash indicates a hardening in attitude by traditionally compliant Dutch institutions on issues of transparency and shareholder accountability.

They blamed the recent slide in the Baan share price in part on an opaque capital structure and inadequate provision of information.

Shares in Baan Company – which this year joined the AEX index of 25 leading Dutch stocks on the Amsterdam exchange – have come under pressure as a result of questions by US authorities over its accounting practices. Baan Company is traded on Nasdaq in the US as well as in Amsterdam.

The group last month said it would no longer be a party to financing agreements between customers and their lenders but it added that a subsidiary of Baan Investment would be a principal distributor of its products aimed at medium sized companies.

That is the sector the group is targeting for expansion in its sales of enterprise resource planning software, which links a manufacturer to suppliers and customers.

Jan Baan told the meeting that, according to research by AMR/Morgan Stanley, it was already world leader in supplying companies that have between $50m and $250m in annual turnover – a software applications segment that should reach $6bn by 2000.

The shares rose Fl 4 to Fl 93.10 but are more than 14 per cent below their peak.

Paul Baan and Graham Sharman were re-elected in spite of ABP's opposition and an abstention by the Unilever pension fund. However, Jan Baan offered to hold an extraordinary meeting within the year to overhaul the supervisory board.

Baan, with revenues of $685m last year, has customers including Boeing and Daimler-Benz. Last month it completed the £50.7m takeover of Coda in the UK.

Profits fall 75% at SAIL

By Krishna Guha in Bombay

India's biggest steel producer has suffered a collapse in profits because of industrial slow-down and competition from Korea and the former Soviet Union.

Steel Authority of India announced a 75 per cent fall in pre-tax profits to Rs1.5bn ($36m) for the year to March 31 on sales up 3 per cent at Rs151bn. Operating costs rose 3 per cent to Rs126bn on higher freight, power and wage bills.

The majority state-owned company – which is over-staffed and uses outdated technology – is being squeezed by soaring borrowing costs as it attempts to modernise to survive in India's liberalised markets.

Interest charges jumped 32 per cent to Rs16bn, while depreciation was up 15 per cent at Rs7.9bn.

Arvind Pande, chairman of SAIL, said: "In any company that invests heavily in modernisation the immediate profit will fall, particularly if modernisation coincides with stagnant markets."

Such is the state of India's steel industry that the results were greeted with some relief.

SAIL urgently needs an injection of capital to reduce its debt to equity ratio of 2.3 to one, putting pressure on the Indian government to bail it out or to privatise it further.

Johnnic shifts to 'infotainment'

By Greta Steyn in Johannesburg

Johnnic, South Africa's black empowerment conglomerate, has announced a strategic realignment to create an "infotainment" group focused on media, information, television, technology and entertainment.

This follows pressure on Johnnic to revive its moribund share price. Analysts have criticised the conglomerate, whose interests range from brewing to media, for its lack of focus and complex structure.

Johnnic's board said on Friday it would move away from an investment trust structure to become a focused "infotainment" group with operational control over its assets. It said its media interests, housed in Omni Media, would be restructured. An offer would be made to minority shareholders of Omni's subsidiaries, Times Media Limited and Mega, which would then be delisted.

Johnnic would also begin disposing of assets over which it had no operational control. It would sell its shares in the food group Premier for cash, and would enter into talks with co-shareholders in SA Breweries, in which it has a 13 per cent stake.

It cannot sell its stake in SAB without triggering pre-emptive rights of shareholders including Liberty Life and Anglo American.

Johnnic is expected to begin merger talks with a media or information technology partner, seen as crucial in refocusing the group. Dimension Data, the information technology group, has emerged as a potential partner, while Primedia, the media group, has also expressed an interest.

However, a potential problem with a merger is that the group might no longer be controlled by black shareholders. Cyril Ramaphosa, Johnnic chairman, said the aim was to maintain it as black-controlled. Johnnic was launched about two years ago when Anglo American sold its stake to a group of black shareholders, known as the National Empowerment Consortium.

Most black shareholders will lose their stake in Johnnic to their financial backers if the shares do not show significant real growth.

Analysts said the share should be worth more than R80 by now if the consortium members' shareholding was to remain intact. It reached a peak of R73.90 early last month on the back of SA Breweries' performance, softened in line with the market, but rose on Friday by R3.00, or 5.3 per cent, to R59.20 in response to the restructuring announcement.

EMERGING MARKETS FALLS HIGHLIGHT STRONG LONG-TERM CORRELATION BETWEEN BOURSES

Baltics feel knock-on effect from Russia

By Matej Vipotnik in Tallinn

The Baltics hate to be lumped together with Moscow, their former colonial master. But in the past two weeks, the Tallinn, Riga, and Vilnius bourses have shared the vagaries of Russia's stock market.

The Tallinn TALSE index, for example, fell 15.78 per cent last week.

Turbulence in the east also pushed Estonia's stock market, which has been suffering from poor corporate performance and a slew of scandals, to new lows.

Optimistic valuations have been overshadowed by lower corporate profits in the past month. With across-the-board declines on the bourse, the banks, which account for about 60 per cent of market capitalisation, suffered losses on their trading accounts. Unable to meet their own profit forecasts, they have contributed to the sustained decline.

Poor corporate results were coupled with tales of mismanagement and profiteering at Hoiupank, one of Estonia's bigger banks. Moody's, the ratings agency, placed the bank's ratings under review for a possible downgrade.

"We've had plenty of negative things coming out in a short time, which has hurt the reputation of our banking sector. With the banking sector doing poorly, this has hit the rest of the SE," says Sten Sumberg, head of sales and trading at Talinvest Securities in Tallinn.

But the "local, ugly facts are already in the prices. What has hit the market this week has been the falls in the Russian market."

The falls have highlighted the strong long-term correlation between Russia's market and the Baltic bourses. The correlation is as high as 94 to 96 per cent in the case of Estonia's bourse, according to Mr Sumberg. Even in the short term, the two markets tend to move together.

And talk by Boris Yeltsin, Russia's president, of an impending crackdown on tax-dodging companies has battered the shares in Norma, an Estonian seat-belt manufacturer. Norma is Estonia's biggest exporter to Russia, but its Russian trade partner is saddled with tax liabilities. Norma stock has lost 20 per cent of its value in the past week.

Future forecasts are not rosy. "The consensus on the market is fairly pessimistic about the macroeconomic prospects for the rest of the year," says Mr Sumberg.

> 'Local, ugly facts are already in the prices. What has hit the market this week has been the falls in Russia'

Preliminary figures released by Eesti Pank, the central bank, suggest that Estonia's current account deficit in the first quarter will exceed the 13 per cent recorded for the whole of 1997. This is likely to plunge the bourse to new lows.

Latvia's stock exchange has not been faring better. The Riga bourse, usually flat, was more depressed than usual last week as liquidity flowed into the privatisation voucher market.

A 30 per cent stake in Latvian Gas, the state-owned gas monopoly, will be sold, starting on June 29, and local investors have been scrambling to secure vouchers for the sale. According to brokers in Riga, Gazprom, the Russian gas giant, has been active on the voucher market.

For their part, Latvian speculators have undermined the Riga SE by pulling money out to buy Russian T-bills, says Roberts Idelson, head of securities at Trasta Commerce bank in Riga.

Latvian companies have also been reporting poor results and revising forecasts for the year. The fish processing industry, a big exporter to Russian markets, has been hit hard. Shares in Kaiga, Latvia's largest fish processor, have plummeted to 50 centimes, from 1.5 lats before Russia announced commercial sanctions against Latvia in early April.

It is bad politics between Latvia and Russia that has dented the performance of Latvian exporters, says Uldis Cerps, head of the Riga SE.

The feverish falls of the Moscow SE were a far cry from action on the Lithuanian bourse. "This market is very flat, and has not been very active in the past two months," says Kestas Kvainauskas, a broker at Vilnius Bank.

The foreign investors that usually enliven the market have not been very active. "Russians are not leaving this market, simply because they are not present," says Mr Kvainauskas. "Therefore I don't see events in Russia affecting us at the present moment," he adds.

Falls in the Russian stock market may, however, have an indirect effect, because they dent the confidence of foreign investors in the Baltic markets, Mr Kvainauskas adds.

FT GUIDE TO WORLD CURRENCIES

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COMPANIES & FINANCE

GERMANY GEORG OBERMEIER SAID TO HAVE LOST SUPPORT

Viag refuses to deny chairman set to quit

By Graham Bowley in Frankfurt

Viag, the Munich-based industrial *conglomerate*, refused to comment yesterday on German press reports that Georg Obermeier, its chairman, was set to leave his post prematurely.

Mr Obermeier had lost the support of the *group's* supervisory board over dissatisfaction with the slow pace of restructuring, German newspapers reported, citing supervisory board members. Viag press officers refused to deny the reports.

Wilhelm Simson, chairman of Viag's chemicals subsidiary SWK Trostberg, would replace Mr Obermeier within the next few weeks, according to the reports.

Mr Obermeier could step down at Viag's annual general meeting in July, although some reports suggested an emergency meeting to discuss the change-over might be called before then.

Mr Obermeier has come under pressure over lack of restructuring at Viag.

He suffered a setback when the industrial conglomerate was recently forced to sell its stake in Computer 2000, its struggling personal computer distribution company.

Viag took a majority stake in Computer 2000, Europe's biggest distributor of personal computers, in 1994 but last year the company reported an after-tax loss of DM70m ($39m).

There have been worries that Viag has been slow in its attempts to enter the telecoms market. Viag has a *joint* venture, Viag Interkom, with British Telecommunications and Telenor of Norway, but the company has been burdened by high start-up losses, expected to reach around DM550m this year.

There have also been suggestions of personal disagreements between Mr Obermeier and other board members and company-divisions, which may have undermined his authority. Recently, Mr Simson was forced to deny publicly earlier statements by Mr Obermeier, who had said SKW Trostberg was poised to make acquisitions.

Despite the disagreements about strategy, Viag has reported strong improvements in business. Operating profits last year increased 15 per cent to DM2.8bn. Sales advanced 21 per cent to DM49.5bn, partly due to acquisitions. Last year Viag also disposed of businesses with sales of DM4.1bn. Mr Obermeier has said disposals on a similar scale are possible this year.

However, according to the reports in several newspapers, Viag's supervisory board chairman, Jochen Holzer, and his designated successor, Burkhard Wollschläger, had agreed Mr Obermeier would step down.

Koplowitz sisters prepare internal buy-out at FCC

By Tom Burns in Madrid

One of Spain's biggest corporate transactions was called *off on Friday as the* warring Koplowitz sisters who control Fomento de Construcciones y Contratas (FCC), the building and construction group, said they had opened talks to permit *one of them to buy out the* other.

The decision by Alicia Koplowitz to sell her 28 per cent FCC stake, worth at least Pta110bn ($727m), to her sister Esther prevents a *third party gaining joint* control with Esther over the business, which has widespread interests in construction, urban services, cement and real estate.

The terms of Alicia's sale include a clause allowing Esther to also withdraw from the group. Esther's willingness to purchase Alicia's stake also dispels speculation over asset sales by a future FCC owner.

Some analysts believe that the conglomerate's break-up value is greater than the *sum of its parts*, but Esther is understood to be anxious about any significant disposals.

Esther Koplowitz: her FCC purchase will dispel speculation REX

Trading in FCC shares was suspended after the announcement.

The two sisters have run FCC since 1992 though a jointly owned holding company that represents 56 per cent of the conglomerate's share capital. They fell out this year over business strategy, and Alicia put her 50 per cent stake in the holding company on the market.

France's *Générale* des Eaux and Empresas ICA, Mexico's largest construction group, were among the contenders for Alicia's stake. Bids were also entered by the three domestic construction groups – Dragados, Acciona and Ferrovial – who rank immediately after FCC in terms of sales.

Goldman Sachs, the US bank advising Alicia, and Esther's adviser, Barings, the merchant banking unit of the ING group, were close to identifying a buyer for Alicia's stake when the two sisters halted the deal by deciding to settle the disposal between them.

Orascom group to raise $65m

By Mark Huband in Cairo

Egypt's leading private sector investor in tourism plans to raise up to $65m from bond and equity issues as part of a capital increase to repay *debts and allow* further expansion of its growing tourism interests.

Both issues by subsidiaries of the family-owned Orascom group are being viewed as precursors to a $100m issue of global depositary receipts from the company's hotels business by the end of this year.

Orascom Projects and Touristic Developments (OPTD) is to issue E£80m (*$24m*) of non-convertible floating-rate bonds with a seven-year maturity. The bond issue, which opens on June 14, comes as the *company* is planning to issue new shares in its hotel branch, *Orascom* Hotel Holdings (OHH).

Subject to approval by the *regulatory* Capital Market Authority, 80,000 bonds with a face value of E£1,000 each are expected to be issued.

OPTD said the *bonds* would be issued to finance new projects and expansion, and to convert *short-term* loans and bank facilities.

Meanwhile, the $40m issue of shares in OHH will be conducted as a limited issue to private buyers with Cairo financier EFG-Hermes as sole offering manager.

The share issue is a precursor to a planned $100m GDR issue of OHH shares intended to be completed by the end of the year by EFG Hermes and Merrill Lynch.

OPTD's expansion *is* expected to raise its hotel portfolio from six to 25 in five years, including plans to expand abroad, notably in Yemen.

OHH's book value stands at *$100m, with its main areas* of activity centred on large multi-hotel developments at El Gouna on the Egyptian Red Sea coast and in the Sinai.

While Orascom Group has *remained* firmly in the hands of the Sawiris family, 30 per cent of OPTD has been sold to other shareholders, mainly funds.

The company has been listed, and is one of many that *Egyptian investors* hope will issue more shares as part of a steady trend towards using the Egyptian Stock Exchange as a major source of fund-raising among expanding private sector companies.

JAL sees loss soar to Y94bn

By Alexandra Harney in Tokyo

Japan Air Lines, one of the world's largest airlines, reported net losses of Y94.2bn ($680m) last year, up from Y9.2bn the previous year. The company blamed one-time write-offs from its hotel and resort business *and flagging domestic* demand, and forecast a return to profit this year.

Extraordinary losses from the hotel and resort operations totalled Y113.5bn. Accumulated losses brought forward last year came to Y57.6bn. Operating margins improved from Y4.6bn to Y31bn, and turnover was up *2 per cent, from Y1,195bn to* Y1,219bn.

In the current year, the company said it expected to post Y14bn in net earnings on sales up slightly to Y1,233bn. The dividend would be suspended.

But analysts said deregulation, sluggish demand and the company's high operating costs were likely to dent profitability. JAL's operating costs per average seat mile, at 12.4 cents, are much higher than for United Airlines, at 8.6 cents, said HSBC *James Capel* in Tokyo.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
ABN Amro (N'lands)	Générale de Banque (Belg)	Banking	$11.4bn	Tops Fortis bid
Hicks Muse (US)	CEI Citicorp (Argentina)	Telecoms	$700m	33% stake
C&W (UK)	Unit of MCI (US)	Telecoms	$628m	Internet spine
Usinor (France)	Acesita (Brazil)	Steel	$625m	New restructuring
LG (Korea)	Zenith (US)	Elec goods	$424m	Full control.
Commerzbank (Germany)	Korea Exchange Bank (Korea)	Banking	$250m	Significant 30%
Henley Management (US)	Unit of Glynwed (UK)	Metals	$163m	Glynwed refocuses
United Biscuits (UK)	Biscuits Delacre (France)	Food	$125m	Campbell sale
BTP (UK)	Hexachimie (France)	Chemicals	$87.5m	Bristol-Myers sale
Teva (Israel)	Pharmachemie (N'lands)	Pharmaceuticals	$87m	New expansion

ELECTRICITY PROVISION FOR REIMBURSEMENT OF COMPENSATION CHARGES RESULTS IN L124bn DEFICIT

Nuclear dispute puts Enel in loss

By James Blitz in Rome

Enel, Italy's state-owned electricity group, has been forced to record a net loss for the first time in many years following a technical dispute over the costs of the country's now defunct nuclear energy programme.

In a development that puts a cloud over long-term plans to privatise the company, Enel has posted a loss of L124bn ($70.6m) for 1997 after making an extraordinary deduction of L1,490bn, which may have to be handed to regulatory authorities.

Enel said its earnings for 1997 were L37,792bn, up 2.6 per cent on 1996. Its profits before exceptionals and tax were up L6,316bn, up 18.3 per cent. However, it said it had been forced to put cash into a separate risk fund because of a dispute involving Italy's accountancy watchdog, the Court of Accounts.

During the 1980s, Enel incurred substantial costs because of investments in a nuclear energy programme. But the plans were scuppered when Italians voted in a referendum in 1987 not to proceed with any form of nuclear development.

The government then decided Enel should be gradually reimbursed through an additional charge for electricity to consumers. But the Court of Accounts ruled at the end of last year that the reimbursement was improper and that Enel should hand the cash back.

A final decision on whether the Court of Accounts' judgment should stand has not been taken.

There were hopes over the weekend that Italy's energy regulator might be in a position to decide whether the cash should be paid before the company finalises its budget at the end of this month.

● Verbund, the biggest Austrian electricity group, has warned the planned liberalisation of the utilities will reduce revenue by Sch3bn ($239m) a year and cause big losses, Eric Frey writes from Vienna.

"We have our back to the wall. If we do not receive special protection, we will find ourselves in a precarious situation," said Hans Haider, a senior board member, after a management meeting in which Verbund called for government aid.

Mr Haider appealed to the government to give special protection for hydro-electric power and plants burning brown coal. He also called on the government to compensate the company for up to the Sch42bn of investments that will no longer be profitable after the market is liberalised. Currently, Verbund can still charge above-market prices for its hydro-electric power.

Verbund also said it would lay off 1,000 employees, a quarter of its workforce, streamline its management and sell properties including its headquarters in Vienna.

Two more Brierley directors resign

By Terry Hall in Wellington

Two further executive directors of Brierley Investments have resigned in the continuing shake-up of the group that last month saw the departure of Bob Matthew, chairman, and Paul Collins, chief executive.

Sir Roger Douglas, the new chairman, has announced that Rodney Price, who has been responsible for big changes in the management of Thistle Hotels in the UK, is to resign and receive a severance payment of A$500,000 (US$313,165).

However Mr Price, who is chairman of Thistle, has been appointed a consultant with particular responsibilities both for Thistle and the Brierley's investment in US-based Graham-Field Health Products. His contract will expire on June 30 next year.

Mr Price is also to step down as chairman of the Australian newspaper group John Fairfax Holdings, where he will be replaced by Brian Power, who recently retired from the Publishing and Broadcasting Holdings group.

BIL's Asian-based director Andrew Meehan is also to resign from the company and receive a severance payment of NZ$900,000 (US$481,825), but will continue to act as a consultant to the company till December 31, with responsibility for AsiaPower's Wayang Windu Project in Indonesia.

Sir Roger announced that as part of changes in the group, Herman Rockefeller had been appointed chief financial officer; John Hartley, chief executive New Zealand; Jonathon Pinshaw, chief executive Australia; and Rupert Morley as chief executive for the UK and US.

He said Egon Zehnder International, the executive search firm, would undertake a global search for a new chief executive to replace Mr Collins, who received a severance payment of NZ$4 million.

NEWS DIGEST

GERMAN INDUSTRY

Mannesmann plans to issue 20m new shares

Mannesmann, the German industrial conglomerate, said it would issue up to 20.7m new shares as part of its planned capital increase to raise around DM3bn ($1.7bn). The Düsseldorf-based company is raising money to invest in its growing telecoms business. It plans to become one of Europe's biggest telecoms companies. It said it would issue 18m new shares, plus a further 2.7m shares if demand proved strong.

Private investors would be given a discount of DM2 per share if they applied for shares in the first week of the subscription period, Mannesmann said, which would run from June 5 to June 19. The selling price for the shares would be fixed on June 22. Trading would begin on June 24.

Deutsche Bank and Merrill Lynch are global co-ordinators of the offering. Goldman Sachs is a lead manager. Mannesmann said sales between January and May in the current financial year rose 19 per cent to DM16.8bn.

Mannesmann is keen to expand its telecoms business. It already runs D2, Germany's largest mobile telecoms network. It was also one of the first companies to take advantage of the January 1 liberalisation of the German fixed telecoms market, with Arcor, its joint venture with railway company Deutsche Bahn. **Graham Bowley, Frankfurt**

PORTUGUESE BANKING

BCP to offer Atlântico stake

Banco Comercial Português is to make a global offer of up to 29 per cent of Atlântico, one of Portugal's largest retail banks. Atlântico is the new brand name that BCP gave to Banco Português do Atlântico (BPA) after acquiring control in 1995 to become Portugal's biggest private-sector financial group. BCP has named Banco Cisf, the group's investment bank, Salomon Smith Barney and UBS/SBC Warburg Dillon Read as global co-ordinators. The offering, scheduled for July, is worth up to about Es150bn ($834m) at current prices.

However, the price of Atlântico shares has been volatile because there is a free float of less than 5 per cent, analysts said. BCP already owns 75.42 per cent of Atlântico's capital and is to acquire a further 20.69 per cent from Império, an insurance company, at Es2,600 a share. This is the price at which the two companies jointly bought control of Atlântico three years ago. Atlântico shares were trading last week at close to Es5,000. BCP says it will keep a minimum of 67 per cent of Atlântico's capital. **Peter Wise, Lisbon.**

FINANCIAL INFORMATION

Dow Jones to take charge

Dow Jones, the financial information group, said on Friday it would record a $98m after-tax charge in the second quarter on the sale of its markets unit to Bridge Information Systems. More than half the charge would be non-cash, it said.

The company said the markets sale has been completed at a total price of $510m, consisting of $360m cash and $150m of five-year, 4 per cent preferred stock of Bridge, convertible into 10 per cent of Bridge common equity. Dow said the charge includes transaction and transition costs, additional write-offs and working capital adjustments.

Dow directors also authorised the repurchase of up to $300m of its stock, more than six per cent of outstanding shares at current prices. **Reuters, New York**

Restructuring boosts Larsen and Toubro

By Krishna Guha in Bombay

Gains from restructuring helped Larsen and Toubro, India's biggest engineering and construction group, to defy the country's economic slowdown and post a rise in full-year profits.

Pre-tax profits on L&T's underlying business rose 2 per cent to Rs4.8bn ($115m) in the year to March 31. A Rs1.1bn gain from the sale of construction equipment interests to a joint venture with Komatsu of Japan lifted overall profits 25 per cent to Rs5.9bn. Sales rose 7 per cent to Rs57bn, matched by a 7 per cent increase in costs to Rs51bn.

S D Kulkarni, managing director, said the company had done "fairly well" in hostile circumstances. "It was a very difficult year," he said. "Whether or not you call it a recession, there was a considerable slowdown."

He said the company was hit by a contraction in the capital goods industry and fierce competition in cement, where L&T is India's second biggest producer, fractionally behind Associated Cement Companies, following the addition of two new plants. "The problem is one of overcapacity," said Mr Kulkarni. "There was about 9 per cent growth in demand for cement but prices were very much depressed."

The company was committed to cement as a "long-term player" but said it had no plans to add to its expanded capacity. L&T's electrical switch business also hit hard times.

L&T was buoyed by a strong performance in its core engineering and construction business, which accounts for almost 60 per cent of turnover. The company booked orders worth Rs64bn, up 14 per cent on the previous year – including big orders from Hindustan Petroleum, Reliance Industries and Indian Oil.

Mr Kulkarni said L&T entered the current financial year with an outstanding order book worth Rs52bn, up 23 per cent. He said the company saw big opportunities in infrastructure and power.

Analysts said L&T was reaping benefits from its decision to sell non-core activities such as software and shipping.

Sale of Amoco Building thought near agreement

By Nikki Tait in Chicago

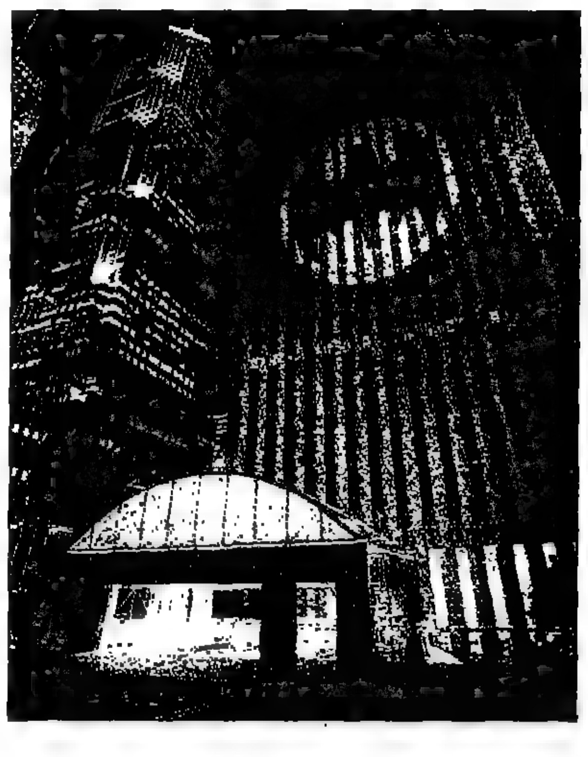
Amoco, the US energy group, is believed to be close to a deal to sell the Amoco Building, one of the largest "downtown" skyscrapers in Chicago and the city's second tallest building.

Blackstone Group, the New York-based investment bank, is thought to be among the front-runners to clinch the deal.

Amoco said earlier this year that it would entertain offers for the building, which has about 2.5m sq ft of space spread over 80 floors, prompting suggestions the building could fetch around $500m.

Yesterday, however, both Amoco and Blackstone declined to comment, and no deal is understood to be have been completed.

If the transaction is finalised, it would be the latest in a series in the Chicago property market involving some of the city's best-known landmarks. The Sears Tower, the world's second-tallest building, was sold to Canada's TrizecHahn for more than $800m, while Vornado Realty Trust paid the Kennedy family $575m for the 4.2m sq ft Merchandise Mart.



Chicago's Amoco Building: second tallest in the city AP

Other recent transactions have involved the Leo Burnett building and the Chicago Mercantile Exchange building. If the Amoco building is sold, the energy company, which uses the 1973 property as its headquarters, intends to remain as a long-term tenant.

Blackstone has been active with its property-related assets, selling a $1.2bn luxury hotel portfolio to Host Marriott last month.

JAPANESE GOVERNMENT BONDS CAMPAIGNERS HOPE TO ATTRACT WESTERN INVESTORS

Move to scrap withholding tax

By Gillian Tett in Tokyo

In a dingy side street near Tokyo's stock exchange, a bizarre exercise in tax avoidance takes place each day.

In a carefully organised ritual, piles of bond registration forms are shuffled between offices – with the space to register the owners' name on most forms left deliberately blank.

Another example of shady Japanese corporate practices? Not quite.

For the driving force behind this ritual are not Japanese companies, but Western investors avoiding Japan's withholding tax. Consequently, the crucial question now hanging over the Y250,000bn ($1.8bn) Japanese government bond market is how long this secretive practice will continue?

Not long, if some government officials are to be believed. For in recent weeks the Bank of Japan and parts of the Ministry of Finance have started campaigning for the abolition of Japan's withholding tax.

This, they hope, would draw more Western investors into the capital markets and boost the use of the yen. Indeed, if Europe presses ahead with its current plans to *impose* a withholding tax, some officials hope it could even help Tokyo steal a march on the euro.

The sticking point is the tax agency. Tax officials insist they will not abandon withholding tax unless a better system of tax identification is put in place. The uncertainty now is how quickly any deal with the tax collectors can be struck.

There is certainly a compelling case for change. Japan is almost the only major industrialised country which imposes withholding tax. Consequently, the tax is a deterrent for some international investors. But on top of this, the current tax system is also strikingly ineffective, yielding a mere Y7bn of annual revenues.

The reason for this is the paper-shuffling ritual occurring around the TSE. This has emerged because Japan imposes different tax levels on different market players. Overseas investors in Japanese securities are taxed at 15 per cent on interest received; domestic players at 20 per cent.

However, "specially designated" financial companies are tax-exempt. These include not only Japanese banks and brokers, but also Japanese branches of Western banks.

This creates a loophole. For tax liability is assessed according to the bond owner registered with the Bank of Japan. So if overseas investors never register, they never become liable for tax.

One way to avoid the liability is to sell the JGB before the biannual coupon payout date. Another is to create the impression a local custodian is still the owner.

To do this, an overseas investor can "forget" to fill in their name on the registration form. So, when the bonds are traded between different investors, the registration forms are physically moved in the paper-shuffling exercise - with the name space still blank.

No Western investor will talk about the practice in public but the Japanese authorities appear tacitly to accept this, and most Western hedge funds and large investment banks say they can handle the administrative burden fairly easily.

The complexity deters smaller overseas investors, however, and some Western fund managers have become increasingly nervous about the practice.

One reason is that the collapse of Barings in 1995 created legal uncertainty about the status of JGBs registered at the Tokyo branch of Barings, but actually "owned" by offshore investors. Also, the collapse of broker Sanyo Securities last November created uncertainty about the status of the unregistered bonds it had sold.

As William Campbell of J.P. Morgan says: "This practice plagues the system with credit risk which Japan can ill afford."

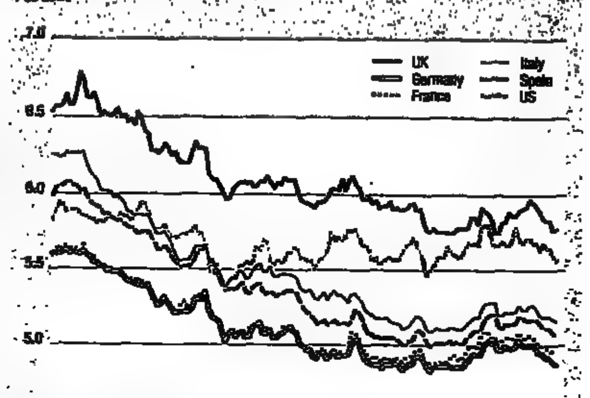
This means abolishing withholding tax could make JGBs more attractive to new Western players. In the short term, there is little to tempt them into the market: long bond yields fell to a record low of 1.19 per cent on Friday. But in the longer term, some fund managers admit they would prefer to maintain a more balanced exposure to yen instruments.

Non-Japanese investors, for example, are estimated to hold an estimated mere 5 per cent of the JGB market and there is growing Western interest in the municipal and corporate bond markets, where non-Japanese have a negligible presence.

The corporate bond market is growing rapidly because Japanese banks are reducing lending: issuance reached a record Y8,800bn in fiscal 1997. As one Japanese government official says: "If you take away the withholding tax, you could suck in a lot of new money."

Will this happen? Many officials believe a deal with the tax office will be struck. But the battle is likely to continue until at least the autumn, when the ruling Liberal Democratic Party will draw up its tax proposals for the 1999 fiscal year. In the meantime, the registration forms will keep whizzing around Tokyo's back streets as a symbol of the problems that still dog Japan's Big Bang reforms.

10-year benchmark bond yields



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NOTICE OF A CHANGE IN AGENT

In accordance with the Terms and Conditions of the Bond and Note issues (the "Issues") listed below, notice is hereby given that, with effect from July 1st, 1998 the roles of Citibank (Luxembourg) S.A. as Paying Agent, Transfer Agent, Exchange Agent or Registrar (the "Luxembourg Agency Roles") will be transferred to Banque Internationale à Luxembourg.

Issuer	Issue Name
Abbott Laboratories	US$250,000,000 6.5% Notes due September 6, 2001
ADI Corporation	US$70,000,000 1.5% convertible Bonds Due 2003
Air Canada	US$300,000,000 FRN Series A due 31 July 2005
AKZO Nobel Finance B.V. formerly AKZO Finance B.V.	GBP£175,000,000 due 2013
Alitalia	US Guaranteed Finance Corporation Floating Rate Notes series A,B & C
Angel Estrada y Compena S.A.	US$30,000,000 Global MTN programme
Aoki International Finance B.V.	2 x JPY8,000,000,000 JGB Futures-Linked FRN(A&B) 30/9/00
Applied International Holdings Ltd	US$75,000,000 5.25% Convertible Bonds due 2000
Arvin International	$50,000,000 notes due 2018
Asda Group plc	GBP£125,000,000 10 7/8% Bonds due 20 April 2010
Asahi Beer International Finance B.V.	JPY40,000,000,000 6.75% Dual CCY Yen/US$ Guaranteed Bonds due 1998
Asahi Beer International Finance B.V.	JPY10,000,000,000 9% Nikkei-Linked Bull Bonds due 15/12/99
Asahi Beer International Finance B.V.	JPY10,000,000,000 Nikkei-Linked Bull Bonds 9% due 15/12/99
Asahi Beer International Finance B.V.	JPY10,000,000,000 9% Nikkei-Linked Bull Bonds due 13/12/99
Asahi Beer International Finance B.V.	2 x US$40,000,000 10% Treasury linked series A&B due 21/11/00
Asahi Chemical Industry Co. Ltd. & Asahi Chemical Nederland BV	US$1,500,000,000 EMTN Programme
Asia Credit Public Company	US$100,000,000 3 3/4% Sub Convertible Bonds due 2003
ASLK - CGER IFICO	LUX5,000,000,000 6.50% due 1999
ASLK - CGER IFICO	LUX2,000,000,000 5.75% due 1998
ASLK - CGER IFICO	LUX5,000,000,000 Zero Pct due 2001
ASLK - CGER IFICO	LUX4,550,000,000 7.75% due 1999
ASLK - CGER IFICO	DKK400,000,000 6.50% due 2000
ASLK - CGER IFICO	LUX2,000,000,000 4.5% due 2001
ASLK - CGER IFICO	LUX2,000,000,000 5.50% due 2000
ASLK - CGER IFICO	LUX2,500,000,000 Zero Pct due 1999
ASLK - CGER IFICO	DKK400,000,000 7.625% due 1998
ASLK - CGER IFICO	LUX2,000,000,000 5.50% due 2000
ASLK - CGER IFICO	LUX2,000,000,000 6% due 1998
ASLK - CGER IFICO	LUX2,000,000,000 7.625% due 1999
ASLK - CGER IFICO	LUX2,000,000,000 6.25% due 1999
ASLK - CGER IFICO	NLG110,000,000 5.5% due 2001
Associates Corporation of North America	US$500,000,000 6.875% Senior Notes due 2002
Associates Corporation of North America	US$300,000,000 6.75% due 1999
Associates Corporation of North America	US$600,000,000 6.75% due 2001
Australian Industry Development Corporation	GBP£75,000,000 10 1/2% due 1999
Australian Industry Development Corporation	AU$100,000,000 10% Notes due 1999
Australian Industry Development Corporation	AU$100,000,000 10.25% due 2000
Australian Industry Development Corporation	AU$$125,000,000 9.25% due 2003
Australian Industry Development Corporation	AU$100,000,000 6.75% Notes due 2004
Australian Industry Development Corporation	AU$150,000,000 6.5% Bond due 2004
Australian Industry Development Corporation	AU$150,000,000 8.75% due 2004
Australian Industry Development Corporation	AU$100,000,000 9.50% due 2004
Australian Industry Development Corporation	AU$150,000,000 6.5% Notes due 2004
Australian Industry Development Corporation	US$1,000,000,000 Euro Medium Term Note Programme
Avco Trust Plc	GBP£125,000,000 FRN due 2000
Banco Citibank S.A.	US$300,000,000 Global Brazil related Medium Term Note Programme
Banco de Credito Nacional S.A.	US$50,000,000 11% Euronote Issue due 19 April 2004
Banco Ganadero	US$200 Million EMTN Programme
Banco Nacional S.A.	US$350 Million EMTN Programme
Banco Roberts	US$65 Million 144a Reg.s Global Note Programme
Bank of Asia Public Company Limited (Th, Bangkok)	US$75,000,000 3.75% Subordinated Convertible due 2004
Bank of Ireland	US$300,000,000 Undated Variable Rate Notes
Bank of Scotland	US$250,000,000 Undated Floating Rate Primary Capital Notes
Battle Mountain Gold	6% Con Sub Debs due 2005
BAWAG	US$75,000,000 Subordinated FRN due 20 Dec 1999
BAWAG	US$100,000,000 Subordinated FRN due 22 Mar 2000
Bens Finance Corporation	US$10,000,000,000 EMTN Programme
Bridgestone Finance Europe BV	US$400,000,000 MTN Programme
British Telecommunications plc	US$1,500,000,000 6.75% Eurobond due 2002
British Telecommunications plc	US$1,000,000,000 7% Eurobond due 2007
British Telecommunications plc	GBP£500,000,000 7 1/8% Bonds due 2003
British Telecommunications plc	GBP£300,000,000 8.625% notes due 2020
C.C.B.P. (Caisse Centrale Des Banques Populaires)	US$1,000,000,000 EMTN Programme
C.C.C.E.	Zero Pct due 1998
C.C.C.E.	Zero Pct due 1999
C.E.C.A. International Finance Limited	US$20,000,000 11.4% Bonds due 1996-2000
C.N.C.A.	XEU Zero Pct due 2003
Caisse Francaise de Developpement	US$100,000,000 due 2003
Caisse Francaise de Developpement	GBP£117,000,000 10 5/8% Notes Due 8 Mar 2001
Caisse Francaise de Developpement	US$108,304,600 Notes Due 1 Oct 1999
Central Pattana PCL	US$50,000,000 2.75% Conv. Bonds due 2001
Ceval Alimentos S.A.	US$250,000,000 EMTN & ECP Programme
Cho Hung Bank	US$2,000,000,000 Global MTN Programme
Cheil Jedang Corporation (formerly known as Cheil Foods & Chemicals Inc)	US$30,000,000 3% Conv. Bonds due 30 Nov 2006
Christiania Bank OG Kreditkasse	US$250,000,000 FR Sub Notes due 9 Sept 2001
Christiania Bank OG Kreditkasse	US$200,000,000 Primary Cap. Undated FRN
Ciminas SA (now known as Holdercim Brasil S/A)	US$100,000,000 Collateralised Floating Rate Notes due 15 Aug 2004
Citi Investments S.A.	US$50,000,000 8.10% due 2000
Citi Investments S.A.	US$50,000,000 8% Brazil-Related Notes due 1999
Citibank Limited (AU,Sydney)	US$150,000,000 Subordinated FRN due 14 Aug 2000
Citibank/Standard Credit Card Master Trust	US$500,000,000 5.625% Class A Series 1996 - 2 due 2001
Citibank, N.A.(BuenosAires Branch)	US$500,000,000 Euro Medium Term Note Programme
Citicorp	US$250,000,000 FRN due 1999
Citicorp	US$250,000,000 Subordinated FRN August 2003
Citicorp	US$100,000,000 7% due January 2004
Citicorp	US$150,000,000 FRN due June 2005
Citicorp	US$150,000,000 FRN due 30/9/2005
Citicorp	US$500,000,000 SUB Floating Rate Notes due 25 Oct 2005
Citicorp	US$500,000,000 Subordinated BANCS
Citicorp	US$350,000,000 Sub Floating Rate Notes due 14 Aug 2011
Citicorp	US$350,000,000 Sub Floating Rate Notes due 27 Nov 2035
Citicorp	US$250,000,000 Floating Rate Notes due September 2000
Citicorp	Zero Coupon Bonds due 2000
C.M. International	GBP £75,000,000 FRSN due 18 July 2000
Co-operative Bank plc	£75,625,000 6 1/4% Senior Convertible Bonds due 2003
Coats Viyella Plc	US$250,000,000 6% due 2000
Coca Cola Co	US$50,000,000 6% Con Sub Deb due 2002
Coeur d'Alene Mines Corp	US$130,000,000 8.75% Guaranteed Notes due 1998
Controladora Comercial Mexicana S.A. De C.V.	US$100,000,000 Notes Due 2003
Compania Sud Americana	US$250,000,000 MTN, US$200,000,000 ECP
Cydsa S.A.	JPY15,000,000,000 6.25% Notes due 28 Apr 1999
Dai Nippon Ink & Chemicals Inc.	
Dai Nippon Ink & Chemicals Inc. Reichhold Finance USA Inc & Reichhold Finance Europe B.V.	US$1,000,000,000 Programme for the Issuance of Debt Instruments
	US$800,000,000 MTN Programme
Danone Finance	US$100,000,000 0.5% Euro Convertible Bond due 2004
Delta Electronics Inc.	US$100,000,000 FRN due 2005
Den Danske Bank	US$2,000,000,000 Programme for the Issuance of Debt Instruments
Den Danske Bank	US$3,000,000,000 EMTN programme
Den Norske Bank ASA	US$200,000,000 Primary Capital Perpetual FRN (formerly $300,000,000 FRN 1996)
Den Norske Bank ASA	US$280,000,000 Primary Capital Perpetual FRN
Den Norske Bank ASA	US$100,000,000 Fixed Rate Notes 1998
Development Bank of the Philippines	AU$75,000,000 8.25% Gtd Notes due 8 Sept 1998
Diageo Finance BV	US$200,000,000 6.375% due 1999
Diageo Finance BV	US$250,000,000 6.25% due 2002
Diageo Finance BV	GBP£100,000,000 8.375% due 2006
East Midlands Electricity Plc	GBP£150,000,000 12% Bonds due 25 Mar 2016
East Midlands Electricity Plc	US$72,000,000 8 1/2% Notes due 12/8/98
Elsportinans	GBP£11,000,000 6.51% due 1999
Elsportinans	GBP£27,000,000 6.91% due 2000
Elsportinans	
Elsportinans	ITL150,000,000,000 due 1998
Elsportinans	AU$66,000,000 6% due 28/6/2000
Elsportinans	AU$37,000,000 6.5% due 28/6/2000
Elsportinans	AU$44,000,000 7% due 28/6/2000
Elsportinans	US$100,000,000 FRN due 2003
Elsportinans ASA	US$150,000,000 5 3/8% due 2001
Elsportinans ASA	US$7,000,000,000 Euro Medium Term Note Programme
Elsportinans ASA	SEK500,000,000 7.5% due 2001
Elektrim S.A.	PLN 549988500 (DEM 294900000) DEM-Linked Convertible Bond due 2004
Elf Aquitaine	FRF1,500,000,000 7% due 2004
Eli Lilly & Company, USA	US$150,000,000 5.5% due July 1998
Eli Lilly & Company, USA	US$200,000,000 8.125% due February 2000
Eli Lilly & Company, USA	US$150,000,000 8.375% due February 2005
Emerging Markets Foreign Investment Corporation	US$10,000,000,000 Note Issuance Programme
Enterprise Oil Plc	GBP£75,000,000 FRN due 1999
European Bank for Reconstruction & Development (EBRD)	GRD40,000,000,000 FRN due 2001
European Coal and Steel	USD$200,000,000 MTN Programme due 31/12/99
European Investment Bank	US$200,000,000 6.25% Notes due 1998
European Investment Bank	US$200,000,000 7.75% Notes due 1998
European Investment Bank	ITL1,000,000,000,000 FRN due 2004
European Investment Bank	US$1,000,000,000 0% due 2026
European Investment Bank	ECU5,000,000,000 Debt Issuance Programme
Export Finance & Insurance	US$1,500,000,000 EMTN
Federal Realty Investment Trust	US$5 1/4% con sub due 2002 and US$5 1/4% con sub due 2003
First International Computer Inc.	US$ 80,000,000 with the option of $8m Euro Convertible Bonds due 2004
Ford Credit Compania Financiera S.A	US$200,000,000 Joint ECP/EMTN Programme
Fujikura International Management (Netherlands)BV	US$60,000,000 x 2 10% US Treasury-linked Series due 21 Nov 2000
Furukawa Finance Netherlands B.V	JPY4,000,000,000 x 2 Series A&B JGB Futures due 21/8/00
General Electric Capital Canada Inc.	US$150,000,000 8.75% Gtd Notes due 25 Oct 1999
Glaxo K.K.	US$350,000,000 7% due 2002
Glaxo Wellcome PLC	US$500,000,000 6.75% due 2000
Glaxo Wellcome PLC	GBP£500,000,000 8.75% due 2005
Glaxo Wellcome PLC	US$500,000,000 5.125% Fixed Rate due 2006
Glaxo Wellcome S.A.	US$57,000,000 Floating Rate Note due 2004/2005
GMAC Australia	AU$100,000,000 7.5% due 2002
GMAC Canada	CAD$100,000,000 6.75% due 2001
GMAC Canada	CAD$100,000,000 6.25% due 2002
GMAC International Finance BV	GBP£150,000,000 7.125% due 2000
GMAC International Finance BV	US$200,000,000 6 3/8% due 2001
GMAC International Finance BV	DEM250,000,000 5.125% due 2003
GMAC International Finance BV	CAD$100,000,000 9.375 due 1999
GMAC International Finance BV	CAD$100,000,000 7.50% due 2001
GMAC International Finance BV	
GMAC Australia (Finance) Limited & GMAC Canada Ltd.	ECU5,000,000,000 Euro Medium Term Note Programme
Government De La Province Du Quebec	US$10,000,000,000 MTN Programme
Government of the Republic of Colombia	US$125,000,000 7.125% Bond Due 1998
Government of the Republic of Finland	JPY20,000,000,000 5.125% Bonds due 28 May 2007
Government of the Republic of Iceland	DEM350,000,000 Floating Rate due 2001
Government of the Republic of Turkey	US$85,000,000 FRN due 1998 (Tranche C)
Grupo Desc	US$300,000,000 MTN
Grupo Desc	US$200,000,000 ECP
Grupo Imsa	US Medium Term Notes
Grupo Imsa	US$50,000,000 Note Due 1999
Grupo Condumex S.A.	US$200,000,000 EMTN programme
Guangdong Investment Finance	US$110,000,000 1% Convertible Bond 2002
Hamburgische Landesbank Germany	JPY5,000,000,000 FRN due 2000
Hamburgische Landesbank Germany	US$100,000,000 3.25% EuroExchangeable due 2002
Hamburgische Landesbank Germany	JPY4,100,000,000 Subordinated Reverse Dual Currency Notes due Dec 2005
Hamburgische Landesbank Germany	JPY9,000,000,000 Reverse Dual Currency Notes due Jan 2007
Hamburgische Landesbank Germany	JPY2,000,000,000 Knockout Notes due 2012
Hamburgische Landesbank Germany	JPY2,000,000,000 Reverse Dual Currency Notes due January 2012
Hamburgische Landesbank Germany	JPY2,000,000,000 Reverse Dual Currency Notes due January 2017
Hamburgische Landesbank Germany	JPY10,000,000,000 Reverse Dual Option Currency Notes due 2026
Hamburgische Landesbank Germany	JPY20,000,000,000 Reverse Dual Currency due December 2025
Hellenic Republic	GRD95,000,000,000 11% due 2002
Hemaraj Land and Development Public Limited	US$60,000,000 3.5% Convertible Bond due 2003
Hokuriku International Cayman Ltd	JPY80,000,000,000 Guaranteed Euro Subordinated Note Programme
Hong Kong and Shanghai Banking Corporation	US$400,000,000 PRIMARY CAPITAL UNDATED FRN SERIES 1
Hong Kong and Shanghai Banking Corporation	US$400,000,000 PRIMARY CAPITAL UNDATED FRN SERIES 2
Hong Kong and Shanghai Banking Corporation	US$400,000,000 PRIMARY CAPITAL UNDATED FRN SERIES 3
Household Finance Corporation	US$500,000,000 EMTN Programme
Household International Inc.Household Finance Corporation, Household Bank, FSB & Household Bank (Nevada)NA	US$4,000,000,000 Programme for the Issuance of Debt Instruments
Housing New Zealand Ltd	US$1,000,000,000 EMTN Programme
Huntington National Bank & Huntington National Bancshares Inc.	US$2,000,000,000 EMTN Programme
Hydro Quebec	US$4,000,000,000 EMTN Programme
Income Partners Asian	US$100,000,000 Sr. Sec and US$54,000,000 Subordinated
Instituto de Credito Oficial	US$4,000,000,000 Euro MTN Programme
International Bank for Reconstruction and Development	PTE10,000,000,000 8.7% due 2006
International Container	5% Notes & 1.75% Notes
International Finance Corporation	GRD10,000,000,000 15.25% Fixed Rate Bond due 1999
International Finance Corporation	GRD100,000,000,000 Fixed Rate 13.4% due 1998
International Finance Corporation	GRD12,100,000,000 FRN due 1999
International Finance Corporation	GRD14,600,000,000 FRN due 2000
Itochu Corporation, Itochu International Inc & Itochu Finance (Europe) PLC	US$5,000,000,000 EMTN Programme
JOHN LEWIS PLC	GBP£100,000,000 10.5% Bonds due 23 Jan 2014
J. Sainsbury plc	6.625% due 1999
J. Sainsbury plc	GBP £750,000,000 EMTN Programme
J. Sainsbury plc	GBP £200,000,000 7.25% due 2002
Jaldis Develop Co.,Ltd.	US$60,000,000 4 1/4% Convertible Bond due 2003
Kao Corporation, Kao Finance Company of America & Kao Finance Netherlands	US$1,500,000,000 EMTN Programme
Kawasaki Steel Corp & KSC Capital of America Inc.	US$2,000,000,000 MTN Programme
Kellogg Company	US$500,000,000 6.625% due January 29 2004
Keycorp, Keybank National Association & Key Bank USA, National Association	US$5,000,000,000 EMTN Programme
Kiatnakin Finance & Securities Ltd	US$60,000,000 Convertible Bond due 2003
K.G. International Trade & Finance PLC & KG International Finance B.V.	US$1,000,000,000 EMTN Programme
Kobe Steel International (Netherlands) BV	US$600,000,000 MTN Programme
Kia Motors Corp	US$44,000,000 FRN due 2000 With Warrants
Komatsu Finance (Netherlands) B.V.	JPY10,000,000,000 9% Nikkei-Linked Bull Bonds due 18/12/98
Kommunal Landspensjonskasse	DEM110,000,000 FRN due 2007
Kommunekredit	US$2,000,000,000 EMTN Programme
The Korea Trust Units	
Kubota Finance (Netherlands) BV	ECU25,000,000 x 2 series LIFFE Future-Linked FR Bonds due 27/11/00
Lai Sun International Finance (1997) Limited	US$150,000,000 4% Convertible Gtd. Bond due 2002
Land and Houses Co Ltd.	US$60,000,000 5% Conv. Bonds due 2003
LASMO plc	GBP£90,000,000 7.75% Conv, Bonds due 4 Oct 2006
LASMO plc	GBP£100,000,000 9.5% Notes due 16 Jun 1999
LG Electronics	US$75,000,000 EB Due 2007 Trust Fee
Lloyds Bank plc (now Lloyds TSB Group plc)	GBP£100,000,000 11 3/8% Sub Serial Notes due 14 Dec 1998
Lloyds Bank plc (now Lloyds TSB Group plc)	GBP£100,000,000 Series A VRSN Due 21 Jul 98
Lloyds Bank plc (now Lloyds TSB Group plc)	GBP£50,000,000 Series B VRSN Due 15 Aug 98
Lloyds Bank plc (now Lloyds TSB Group plc)	GBP£50,000,000 Series C VRSN Due 14 Sept 98
Madeira Bond Repackaging	ITL15,000,000,000 Collateralised FRN due 1999
Maples and Calder	US$54,000,000 Sub and US$100,000,000 Sr.Sec
Marubeni Finance Holland BV	US$30,000,000 FOREX Linked Bonds Due 30 Mar 2000
Marubeni Finance Holland BV	JPY8,000,000,000 x 2 JGB Series A&B FRN due 27 Sep 2000
Marui Co. Limited	US$100,000,000 3.5% Convertible Bonds due 1 Feb 1999
Mellon Bank	Medium Term Notes
Marita Bank Ltd.	JPY5,000,000,000 Perpetual Step Up Subordinated Notes
Marita Bank Ltd.	ECU2,000,000,000 Medium Term Note Programme
Midland Bank plc	US$500,000,000 Undated Primary Floating Rate Cap. Notes
Midland Bank plc	GBP£250,000,000 Sub FRN due 7 May 2001
Narodna Banka Slovenska (National Bank of Slovakia)	JPY15,000,000,000 7.75% due 1998 + JPY10,000,000,000 8% Notes due 2000
National Australia Bank Limited	US$300,000,000 6.25% due 1998
National Power PLC	GBP£200,000,000 10 5/8% Bonds due 26 Mar 2001
National Treasury Management Agency (NTMA)	ITL150,000,000,000 11.25% due 2002
National Treasury Management Agency (NTMA)	US$500,000,000 6 875% Bond due 2003
National Treasury Management Agency (NTMA)	US$2,000,000,000 EMTN Programme
National Treasury Management Agency (NTMA)	JPY10,000,000,000 3.75% due 2004
Neste OY	US$250,000,000 9.25% Bonds due 6 July 1999
Nestlé Holdings Inc.	US$250,000,000 7.375% due 2005
Nestlé Finance France	ZAR200,000,000 14.75% due 2000
New South Wales Treasury Corporation	AU$92,165,000 9.25% due 2005
New South Wales Treasury Corporation	AU$81,380,000 8.75% due 2002
New South Wales Treasury Corporation	AU$61,691,000 7.75% due 2002
New South Wales Treasury Corporation	AU$174,327,000 7% due 2002
New South Wales Treasury Corporation	AU$81,622,000 10.5% due 2004
New South Wales Treasury Corporation	AU$109,165,000 9% due 2005
New South Wales Treasury Corporation	AU$100,000,000 7.375% due 2007
New South Wales Treasury Corporation	AU$87,633,000 10% due 2005
New South Wales Treasury Corporation	US$7,000,000,000 MTN Programme
Nichimen Europe plc	US$600,000,000 EMTN Programme
NFC Plc	GBP£82,500,000 7.75% Conv bonds due 27/8/2007
Nissan Capital of America	JPY7,600,000,000 Step Down Cpn. Notes due 26 Mar 2001
Nissan Capital of America	JPY2,000,000,000 Step Down Notes due 28 Sept 2000
Nordic Investment Bank	SEK500,000,000 11% Bonds due 4 Sep 1998
Nordic Investment Bank	SEK500,000,000 6% due 2003
Nordic Investment Bank	FIM300,000,000 6.15% due 2001
Nordic Investment Bank	CAD$100,000,000 6.625% 2001
Nordic Investment Bank	SEK250,000,000 11 25% due 1999
Nordic Investment Bank	SEK300,000,000 7.5% due 2001
Nordic Investment Bank	SEK500,000,000 8.5% due 2000
Nordic Investment Bank	DKK400,000,000 7 625% due 2000
Nordic Investment Bank	ITL100,000,000,000 11 2% Notes due 11 June 1999
Nordic Investment Bank	ECU6,000,000,000 MTN Programme
Norwest Corporation	US$2,000,000,000 Euro MTN Programme
NYK International (Netherlands) BV	YEN20,000,000,000 9% Nikkei-Linked Bear Bonds due 21/6/99
Obayashi Finance International Netherlands BV	US$1,000,000,000 Medium Term Note Programme
Okobank	YEN3,000,000,000 Step Down Cpn. Notes due 20 Dec 2000
Osterreichische Industrieholding A.G.	JPY19,000,000,000 Gtd Floating Rate Notes due 20 Mar 2005
Panasonic Finance (Netherlands) BV	US$300,000,000 Euro Medium Term Notes Programme
Postipankki	US$35,000,000 9% Nikkei Bull/Bear Notes due 18/9/2000
Postipankki	JPY5,000,000,000 6.3% Reverse Dual CCY Bonds due 3/6/2001
Province of Manitoba	US$1,000,000,000 EMTN Programme
Province of Manitoba	CAD$150,000,000 7% due 2007
Province of Manitoba	CAD$150,000,000 6.25% due 1999
Rabo Australia Limited	AU$100,000,000 8.25% Fixed Rate due 1999
Rabobank Nederland	US$250,000,000 Limited Recourse Debt Issuance Programme
Rashid Hussain Berhad	1.5% Exchgble DBS due 2007
Renault Credit International SA Banque	US$1,000,000,000 EMTN Programme
Robert Fleming Capital Ltd & Robert Fleming Finance (Jersey) Limited	US$1,000,000,000 Guaranteed Programme for the issue of Debt Securities
The Royal Bank of Scotland Plc	GBP£200,000,000 Floating Rate Notes due 9 May 2005
The Royal Bank of Scotland Plc	US$400,000,000 Undated Floating Rate Primary Cap. Notes
	US$350,000,000 Undated Floating Rate Cap. Primary Notes
Salomon Inc	US$10,000,000,000 MTN Programme
Salomon Smith Barney Holdings	Various Prospectus Supplements
SCA Group Holdings BV	DEM200,000,000 2.5% Guaranteed Exchangeable Bond due 2002
Scottish & Newcastle Plc	GBP£50,000,000 9.75% Bonds due 25 April 2006
Sekisui Holland BV	JPY10,000,000,000 9% Nikkei Linked Bear Bonds Due 18/12/98
Serrana S.A. (formerly S.A. Moinho Santista Industrias Gerais)	US$15,000,000 Secured FRN due 15 May 2005
Siderar S.A.I.C.	US$250,000,000 MTN programme
Siliconware Precision	US$250,000,000 MTN programme
SmithKline Beecham Capital plc	GBP£100,000,000 8 1/8% Gtd notes due 1998
SmithKline Beecham Capital plc	GBP£100,000,000 7.75% Gtd notes due 1998
SmithKline Beecham Capital plc	GBP£150,000,000 8.375% due 2000
SmithKline Beecham Capital plc	US$200,000,000 6 5/8% due 2002
SmithKline Beecham Capital plc & SmithKline Beecham Capital Inc	US$2,000,000,000 MTN Programme
Societe Nationale des Chemins De Fer Belges	US$250,000,000 8.25% due 2000
Societe Nationale des Chemins De Fer Belges,(SNCB)	US$1,000,000,000 Euro Medium Term Note Programme
Ssangyong Industrial Cement Co. Ltd	US$75,000,000 0.25% Convertible Bonds due 2005
Stadshypotek AB	US$2,000,000,000 EMTN Programme
Stokeport S.A.	US$50,000,000 4.5% Euro Convertible Bond due 2002
Star Micronics Co. Ltd	US$50,000,000 3.5% Euro Convertible Bonds Due 28 Feb 2000
State Bank of New South Wales Ltd	AU$100,000,000 14.25% Sub Notes due 28/9/99
State Bank of New South Wales Ltd	AU$100,000,000 6% Notes due 27/9/00
Statoil SF	US$500,000,000 EMTN Programme
Taisei Corp, Taisei Capital LDC & Taisei Holland BV	US$3,000,000,000 EMTN Programme
Taisei Holland BV	JPY10,000,000,000 9% Nikkei Linked Bear Bonds Due 13/12/99
Taiwan Liton Electronic Co Ltd	US$72,000,000 0.5% ECB due 2004
Takashimaya International Finance BV	JPY8,000,000,000 x 2 FRN Series A&B due 22/08/00
TCNZ Finance Limited	US$97,000,000 6.75% due 2005
TCNZ Finance Limited	US$73,000,000 6.50% due 2001
Telenor AS	US$2,000,000,000 Debt Issurance Programme
Telefonica de Argentina	US$300,000,000 8.375% Obligations due 2000
Thai Petrochemical Industry (Cayman Islands) Ltd.	US$48,000,000 3.5% Guar. Exch Bonds due 2003
The BOC Group	US$200,000,000 5 7/8% Fixed Rate due 2001
The Walt Disney Company	6.38% Senior Participating Notes due 30/01 and 6 1/4% Senior Participating
Toronto-Dominion Bank	US$200,000,000 6.75% Sub Callable Notes due March 2007
Toshiba America Capital Corporation	US$300,000,000 EMTN Programme
Transportadora de Gas del Sur S.A.	US$500,000,000 MTN Programme
Transportadora	7 3/4 Notes due 1999
Transportadora	US$300,000,000 EMTN
TSB Group plc	GBP£100,000,000 FRN due 25 Aug 2003
Tung Ho Steel Enterprise Corporation	US$40,000,000 4% Bonds due 26 July 2001
Union Asia Finance Public Company Ltd.	US$75,000,000 3 3/8% Sub. Conv Bonds due 2003
United Mexican States	ITL 11% due 2017
United Mexican States	ITL FRN due 2001
United Microelectronics	US$160,000,000 Bonds due 2004
United Parcel Service Amer Inc	US$200,000,000 5.5% Notes due 1999
United Parcel Service Amer Inc	GBP£100,000,000 6.875% Eurobond due 2000
United Parcel Service Amer Inc	US$1,000,000,000 EMTN Programme
U.S. Bank National Association	US$2,000,000,000 EMTN Programme
U.S. West Communications Inc	US$300,000,000 5.625% due 1998
U.S. West Communications Inc	US$250,000,000 6.125% due 2000
Vattenfall Treasury AB & Vattenfall AB	SEK500,000,000 7.875% due 2001
Vattenfall Treasury AB & Vattenfall AB	FIM100,000,000 6.375% due 2001
Volvo Group Finance Sweden AB(Publ). Volvo Group Finance Europe BV, Volvo Group Treasury Asia Ltd & Volvo Group Treasury US Inc	US$1,000,000,000 EMTN Programme
Walsin Lihwa Corp	US$60,000,000 3% bonds due 11 June 2002
Walsin Lihwa Corp	US$75,000,000 3.25% Bond due 2004
Yageo Corporation	US$80,000,000, 1.25% Euro Con Bond due 2003
Zeneca Inc.	Zero Coupon Secured Notes

All further presentations of coupons and/or Notes/Bonds for which Citibank (Luxembourg) S.A. currently performs the Luxembourg Agency Roles should, following June 30th 1998 be presented for payment to Banque Internationale à Luxembourg at the following address (or alternatively at one of Banque Internationale à Luxembourg's Branches in Luxembourg):
69, Route d'Esch, Luxembourg L-2953 Attn: Fiscal and Listing Agencies. Any questions relating to this transfer should be directed to Citibank (Luxembourg) S.A. at Tel: 352 44 22 4060 or Fax: 352 44 22 4070 or Citibank, N.A. London at Tel: 44 171 500 5262 or Fax: 44 171 500 5278.

CITIBANK

June 1, 1998

MARKETS WEEK

June 1 - June 7

NEW YORK

By John Authers

Worries about the impact of the Asian crisis on the US economy, and about equity valuations, resurfaced last week, inflicting a bad week on US equities.

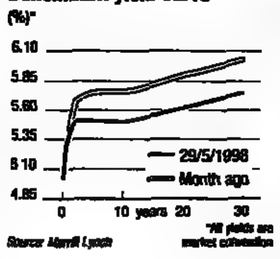
The Dow Jones Industrial Average slipped from 9114.44 to 8,899.95, its lowest level for a month. Bond prices rose, with the yield on the 30-year Treasury falling 10 basis points to 5.80 per cent.

Publication of the US employment report for May, on Friday, will probably be the biggest event for the market this week. Much data last week continued to show US economic growth at a faster pace than predicted.

The consensus expectation, according to Standard & Poor's MMS, is for the unemployment rate to fall further, from 4.7 to 4.4 per cent. If this is correct, or if employment grows even more, it would increase the Federal Reserve's bias towards a tighter monetary policy, although most analysts believe the Asian situation will prevent a rise in interest rates.

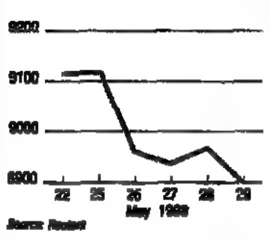
As most US companies are now in final month of their second quarter, there may also be new evidence on corporate earnings. Companies that are not on course to match analysts' expectations often warn the market at this stage.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Dow Jones Industrial Average



Source: Reuters

LONDON

By Philip Coggan

The main event of the week will be the Bank of England's monetary policy committee meeting, although most observers are convinced there will be no change in interest rates.

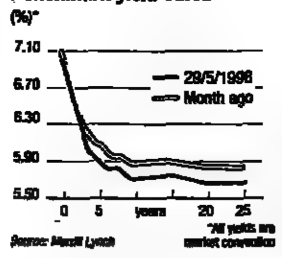
While Mervyn King, the Bank's chief economist, gave a rather hawkish speech last week, it seems likely that the doves retain a majority on the committee.

The domestic economic data on offer may give some clues as to the Bank's agenda for the rest of the year. Last week's CBI survey indicated that manufacturers had yet to see any benefit from sterling's recent decline: analysts will look for confirmation from the purchasing managers' index, released today. In April, the survey dipped below 50 per cent, a sign of declining manufacturing activity.

By contrast, Wednesday's services survey should show continuing strong growth, making the Bank's task all the harder. The hardest statistic to call is probably the CBI's distributive trades survey; retail sales have been weak of late, but the survey picked up in April.

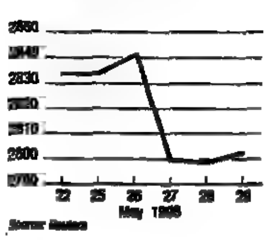
Traders will need to keep one eye overseas, in the light of the crises in Russia and Asia, and also at the US non-farm payroll report, often a market mover.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

FTSE All-Share index



Source: Reuters

FRANKFURT

By Graham Bowley

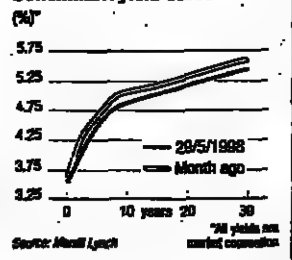
The fate of Rolls-Royce Motor Cars of the UK is likely to be decided this week. Vickers' shareholders will vote at an extraordinary meeting on Friday whether to accept the Volkswagen bid or that of BMW.

VW holds its annual meeting on Thursday, when Ferdinand Piëch, chairman, is likely to outline some of his plans for the UK luxury carmaker. VW's supervisory board meets on Wednesday. VW has offered £430m for Rolls-Royce and Bentley. BMW has said it would not raise its bid of £340m. Vickers management is recommending the VW bid to shareholders, after initially favouring BMW.

NordLB, the state-owned bank which is helping to float former Preussag steel division Salzgitter, will give details of its trading at its annual press conference on Wednesday. Deutsche Telekom holds its main shareholders meeting on Thursday.

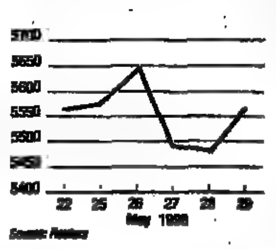
Take-over talk swept the Frankfurt market late last week with Hoechst, the chemicals and pharmaceuticals group, at the centre of attention. Hoechst shares rose sharply amid rumours that Bayer, its rival chemicals group, might be interested in taking it over.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Dax index



Source: Reuters

TOKYO

By Bethan Hutton

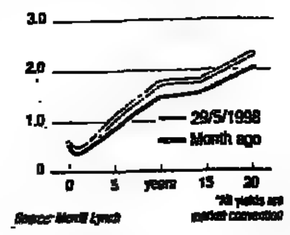
Hopes that the Nikkei might regain the 16,000 mark last week were dashed as a rash of poor economic data and worse than expected corporate results combined with worries over Asian stability to hold equities back. This was in spite of positive factors including some relatively optimistic earnings forecasts, and more announcements of possible share buy-backs.

However, there were signs that pension funds were buying shares on dips, indicating that the bottom for the Nikkei may still hold above 15,000 in the absence of outside influences.

Meanwhile the economic gloom reinforced by record unemployment, rising inventories, and falling industrial output and retail sales, pushed Japanese government bonds ever higher last week. The benchmark bond yield touched a record low on Friday, and the yen hit a seven-year low against the dollar.

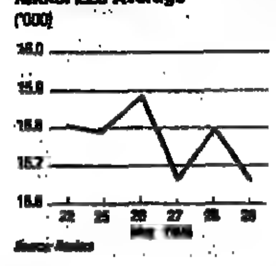
Rumours emerged on Friday that the Bank of Japan could soon be forced into cutting the official discount rate. If this week voices for a rate cut begin to outweigh those for a rise or interest rate stability, bond yields can be expected to post yet more record lows.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Nikkei 225 Average ('000)



Source: Reuters

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§90	F.P.	17.2	103½	88½	†Ambient Media	90	-	-	-	-	-
*	F.P.	14.4	325	290	†Ambishus Pub Co	[illegible]	-5	-	-	-	-
-	F.P.	23.8	98	87½	Baronsmead VCT 2	95	+7½	-	-	-	-
4	F.P.	1.16	5¾	5	†Capital O.M. Walls	5½	+¼	-	-	-	-
-	F.P.	33.8	166½	147½	City North Grp	158½	-2	R2.2	1.8	1.8	45.7
-	F.P.	1,348	822½	725	Computacenter	728		L1.6	11.0	0.3	38.8
-	F.P.	116.0	400	128½	†Desire Petroleum	245	-16	-	-	-	-
§30	F.P.	18.7	33½	30½	†[illegible]	28	-½	-	-	-	-
*	F.P.	14.3	95	95	Edinburgh Dan VCT	95		-	-	-	-
§220	F.P.	149.8	242½	222½	Estmuir Props	238½	+2½	-	2.1	-	18.7
-	F.P.	0.54	25	25	Hawleys B	25		-	-	-	-
§180	F.P.	55.1	284½	182½	ICM Computer	280½	-5	L2.83	2.6	1.1	42.4
§325	F.P.	22.0	400	330	†Inter-Alliance	400		-	-	-	-
§103	F.P.	34.6	178½	114½	JWE Telecom	178½	+17	M1.54	3.8	1.1	28.9
-	F.P.	116.8	84½	71½	Lonrho Africa	74	+1½	L2.3	[illegible]	3.9	7.8
-	F.P.	233.8	280	272½	Matalan	279½		L5.0	2.5	2.2	22.5
*	F.P.	-	100	100	[illegible] VCT	100		-	-	-	-
-	F.P.	-	140½	138½	Taiwan IT GDR	140		-	-	-	-
§200	F.P.	153.8	248½	203½	Taylor & Francis	237½		L3.0	2.4	1.6	28.2
§170	F.P.	1,785	200	170½	Thomson Travel	179½	-7½	[illegible]	2.9	1.9	21.6

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
350	Nil	6/6	100pm	82½pm	Ask Central	85pm	+2½
10	Nil	9/6	2¼pm	1pm	John Lusty	1¾pm	
350	Nil	4/6	60pm	35pm	Nord Anglia	35pm	
45	Nil	29/5	4pm	1½pm	Protean Intl	2pm	
1	Nil	11/6	1pm	½pm	Silver Shield	½pm	

pm premium.

FTSE GOLD MINES INDEX

	May 29	% Chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1087.12	+9.7	31.88	100.00	2.38	-	[illegible]	891.53
■ Regional Indices								
Africa (14)	1197.35	+8.4	8.30	26.21	4.46	28.81	1751.21	921.78
Australasia (7)	1263.57	+11.0	3.27	10.32	2.60	[illegible]	1757.80	933.63
North America (11)	1034.42	-0.7	20.11	63.47	1.21	40.01	1874.16	864.86

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STOCK INDICES

	May 29	May 28	May 27	May 26	May 22	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	5870.7	5862.3	5870.2	5870.7	6056.8	6105.8	5086.6	6105.8	[illegible]
FTSE 250	5901.4	[illegible]	[illegible]	5920.9	5887.6	[illegible]	4789.2	[illegible]	1379.4
FTSE 250 ex IT	5964.1	5966.0	5946.6	5960.1	5957.7	[illegible]	4808.3	[illegible]	1378.3
FTSE 350	2884.5	2880.9	2882.3	2906.5	2897.4	[illegible]	2444.7	[illegible]	664.5
FTSE SmallCap	2773.12	2769.58	2773.18	2792.73	2768.36	2792.73	2320.16	2792.73	1363.79
FTSE SmallCap ex IT	2776.39	2774.96	2778.61	2793.55	2790.70	5554.18	2318.19	5554.18	1363.79
FTSE All-Share	2802.18	2798.86	2800.20	2841.04	2833.31	2847.07	2380.32	2847.07	61.92
FTSE Fledgling	1505.50	1501.28	1501.18	1511.03	1508.46	1611.03	1286.77	1611.03	31.14
FTSE Eurotop 100	2816.57	2806.96	2812.42	2875.22	2853.70	2928.66	2236.40	2928.66	2044.47
FTSE Eurotop 300	1228.91	1226.10	1228.91	1252.97	1244.59	1283.63	971.95	1283.63	874.06
FT 30	3821.7	3834.9	[illegible]	3900.1	[illegible]	3920.3	[illegible]	[illegible]	49.4
FT Govt. Securities	108.49	109.00	108.01	108.04	104.57	[illegible]	93.31	141.84	49.18
FT Fixed Interest	143.38	142.86	142.72	142.38	142.38	[illegible]	115.32	[illegible]	50.53
FTSE Gold Mines	1087.12	1100.98	1137.48	1187.82	1187.62	1391.87	[illegible]	2074.01	903.02

COMPANIES DIARY

Utilities will dominate results in the UK

Another big week for figures will be dominated by preliminary results from utilities in the water and electricity sectors. Today six FTSE 100 companies - BAA, Bass, Land Securities, National Power PowerGen and Scottish Power, go ex-dividend. The effect will be to take 4.4 points off the main index.

Striking a note: Brandon Gough, chairman of De La Rue

TODAY

● At Emap's final results, the publisher is expected to give some indication of how well advertising spending is holding up.

Panmure Gordon forecasts profits before tax of £142.1m ($237.3m), up from £121.1m last year. This year's figure excludes an estimated £1m write-down associated with the Macmillan deal, while last year's stripped out a £113.5m profit from the sale of Emap's printing and regional newspaper division.

TUESDAY

● Siebe will report full-year results six weeks after it made a £439m agreed bid for Eurotherm, the temperature controls group. These figures should begin to reflect the benefits of the previous takeovers of APV and Eaton, which have contributed to a rise in pre-tax profits from £412m to an expected £500m (including about £12m of exceptional disposal gains). Despite the strong pound's 10 per cent hit on overseas earnings they should be 15 per cent ahead at 60p a share, with a dividend of 16.2p (14.7p).

● The market will look for progress on restructuring at De La Rue, the banknotes and cash systems group that lost its chief executive last month after a string of profits warnings.

Henderson Crosthwaite is expecting pre-tax profits of £87m (£120.2m) and earnings per share of 28.9p (39.7p) for the year to end-March. However, it thinks the group may make another provision for further restructuring, perhaps of £30m.

There may be news on a review of banknote operations launched in early April after the group concluded there was significant overcapacity in the sector. In February, the group warned on profits because of disappointing banknote sales, continuing difficulties in one of its security divisions and fewer than expected orders for new cash-handling machinery. The problems had been compounded by the strong pound and the financial trouble in Asia. It said operating profits would be about £30m below last year's £90.5m while the dividend was likely to be halved to 12p.

● Comments by Thames Water on the state of its Indonesian contract will be watched with particular interest when the water company reports its annual figures. Little improvement is expected in the current year with regulators considering pricing arrangements for the period 2000-2005.

The consensus forecast from First Call is for pre-tax profits of £418.6m and a 42.75p dividend, up from £402.8m and 38.25p last time.

● MEPC, the UK's third largest property company, announces interim results for the six months ended March 31, following rapid structural change. Analysts expect pre-tax profits of £80m-£82m compared with £75.7m, a sum all but wiped out by a swaps termination provision of £73.2m.

After having sold most of its US and Australian assets, MEPC is expected to unveil details of its promise to return at least £300m of those sale proceeds to shareholders.

Also, MEPC is expected to cut its dividend by the full 40 per cent suggested last September, giving it an interim dividend of about 3.5p, down from 5.25p.

THURSDAY

● Boots is forecast to report pre-tax profits of about £550m (£536m). The market will be keen to hear more about the company's ambitions in south-east Asia, having just announced plans to expand in Thailand.

Although profits will be ahead of last year, the increase is expected to have been held back by the £20m launch costs of the group's loyalty card, Advantage. Sales growth will also be somewhat lower than hoped, because of a warehouse fire and a healthier clientele over winter, but it will at least have accelerated. Like-for-like sales are forecast to come in at about 5 per cent.

● 3i, the European venture capital company and the FTSE 100 index's only investment trust, is forecasting a fully diluted net asset value of 566p-591p, against 518p at September 30. The small cap index has risen by just over 13 per cent between September and March.

● Analysts will scrutinise results from Pilkington expecting pre-tax profits of between £108m and £115m, compared with £132m last time. The sales trading environment for glass manufacturers has been depressed.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
GECC‡	300	Jun 1999	(a)	100.04R	-	-	Daiwa Europe
Huntingdon National Bk(a)‡	100	Jan 2008	(b1)	100.00R	-	-	Lehman Brothers
Amoco Co(b)	500	Jan 2008	6.00	99.581R	6.057	+43(5⅝%-May08)	Morgan Stanley DW
Alcatel Alsthom‡	500	undated	(f)	100.00R	-	-	JP Morgan
BOS Intl(Australia) Ltd‡★	200	Jun 1999	(k)	100.018R	-	-	Salomon Brothers Intl
Bendigo Bank Ltd‡	100	Jun 2001	(m)	99.931	-	-	Deutsche Bank
Barclays Capital Cayman(c)§	50	Jul 2005	1.00	100.00	-	-	Barclays Capital
Meridian Funding Co‡	350	Jun 2008	(u)	100.00R	-	-	Morgan Stanley DW
Stena Line★(G)	300	Jun 2008	10⅝(f)	100.00	10.63	-	ABN Amro/Chase Secs
CIBC‡	200	Jun 2000	(z)	99.935R	-	-	CIBC Wood Gundy
Repap New Brunswick(E)‡★	200	Jun 2004	9.00(q)	100.00	9.00	+341(5¼%-Apr03)	CSFB
SE Banken(F)	500	undated	(F1)‡	99.625	6.589	+160(5¼%-Apr03)	Merrill Lynch
Indosuez Capital Funding(I)	1.3bn	May 2010	-	-	-	-	CIBC Oppenheimer
D-MARKS							
Republic of Austria(c)	1.0bn	Jan 2008	5.00(s)	100.316R	4.954	+6(5¼%-Jan08)	SBC Warburg DR
TMCC	750	Jan 2005	4.75	99.189R	4.893	+15(6⅞%-May05)	Barclays Capital/Paribas
TMBT, Class 1A(o)‡	200	Jul 2001	(o1,l)	100.00R	-	-	SBC Warburg DR
TMBT, Class 2A(o)‡	100	Jul 2003	(o2,l)	100.00R	-	-	SBC Warburg DR
Dest Volksbank(s)	100	Jun 2003	(p1,l)	101.30	-	-	DG Bank
SGZ Bank(v)	100	Jun 1999	[illegible]	99.50	-	-	SGZ Bank
Sal Oppenheim(w)	100	Aug 2000	9.25	99.25	-	-	Sal Oppenheim
STERLING							
Province of Ontario	280	Jan 2004	6.375	99.957R	6.384	+38(6¾%-Nov04)	ABN Amro
Nth British Housing Assoc(x)	100	Sep 2038	6.6250	100.521R	5.178	+67(8%-2021)	Dresdner KB
World Bank(t)★	50	Jul 2000	6.12	100.00	-	-	IBJ International
European Inv'ment Bank(c)	150	Nov 2004	6.00	99.22R	6.141	+16(6¾%-Nov04)	ABN Amro
FRENCH FRANCS							
Dresdner Finance	2bn	Jan 2009	5.25(s)	99.42R	5.176	+25(l)	Dresdner KB
Caja de Madrid	1.5bn	Jun 2004	4.75	99.727R	4.803	+19(l)	CNI
WestLB Finance	1.5bn	Jun 2013	5.25	99.07R	5.342	+25(l)	BNP
Citibank CCMT	4bn	Jan 2009	5.125(s)	99.21	5.228	+28(l)	Citibank/JP Morgan
YEN							
SBAB★	21bn	Jun 1999	4.10	100.00	4.100	-	Daiwa Europe
SWISS FRANCS							
Abbey Natl Trsy Services(d)	150	Aug 2007	2.00	100.20	1.933	-	CSFB/Deutsche Bank
Province of Ontario	250	Jul 2003	2.50	101.00	2.286	-	CSFB/Merrill Lynch
GUILDERS							
Swiss Re Finance(I)§	925	Jun 2003	1.25	100.00	-	-	CSFB
CANADIAN DOLLARS							
Toyota Credit Canada	100	Jan 2003	5.375	99.44R	5.506	+23(5½%-Sep02)	TD Securities
LUXEMBOURG FRANCS							
Genfinance Luxembourg	2bn	Jun 2000	9.50	102.10	-	-	BGL
Genfinance Luxembourg(A)	2bn	Jun 2000	10.25	102.00	-	-	BGL
BBL International(C)	2bn	Jun 2000	10.00	102.00	-	-	Credit Europeen-BBL
IRISH POUNDS							
Independent Newspapers(y)	75	Jun 2003	6.625‡	99.777	6.428	+150(9¼%-03)	ABN Amro
GREEK DRACHMA							
DSL Bank	10bn	Jun 2001	8.50	99.85R	8.559	-	PaineWebber Intl(UK)
World Bank	10bn	Jun 2001	8.00	101.35	8.019	-	CSFB
Republic of Portugal	10bn	Jun 2002	8.00	100.00R	8.000	-	HSBC Markets
Bayerische Hypo Bank	10bn	Jun 2001	(B)	99.60R	-	-	Chase/NBG Intl
SWEDISH KRONOR							
Kommuninvest(g)	1bn	May 2003	5.25	101.18	4.972	+25(No 1033)	Swedbank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. ‡Semi-annual coupon and yield. R: fixed re-offer price. a) 3-mth Libor -12½bp. b) Callable from June 03 at par. b1) 3-mth Libor +45bp. c) Fungible with Sch55.6bn upon Emu. Plus 143 days accrued. d) Fungible with SFr500m. Plus 303 days accrued. f) Exchangeable into ING shares at Fl 185. Callable from Jun 01 subject to 120% hurdle at par. g) Fungible with SKr1bn. Plus 29 days accrued. h) Callable from 9/6/99 flat to Treasuries. l) Over interpolated yield. j) 3-mth Libor +10bp to Jun 00, then remarketed at fixed rate if not called at par. k) 3-mth Libor -6.25bp. l) Long first coupon. m) 3-mth Libor +37½bp. n) Exchangeable into Roche shares at SFr18,168. FX: 1.475Fr/$. Callable from Jul 00 subject to 1 yr of 130% protection at par. o) Toll Mortgage Backed Trust. o1) 3-mth Libor +15bp. o2) 3-mth Libor +17bp. p) Callable from Jun 00 at par. p1) Respective annual coupons: 4⅝, 4¾, 4⅞, 5, 5½. q) Callable from Sep 33 at par. r) Quarterly coupons, long last. s) Short first coupon. u) 3-mth Libor +32bp. v) Redeemed at par or 75 participation certificates on SG-Eurostar's equity basket. w) Redeemed at par or 154 Commerzbank shrs per DM10,000 bond. Long last coupon. x) Fungible with £850m. Plus 194 days accrued. y) Cumulative redeemable preference shares. If not redeemed in Jun 03 dividend steps to 6-mth Dibor +250bp. z) 3-mth Libor -6¾bp. A) Redeemed at par or 16 Societe Generale shrs per LFr100k bond. B) 9% to Jun 99, then 8%. C) Redeemed at par or 20 shares of Allianz per LFr220k bond. D) 5-tranche collateralised loan obligation. E) Callable Jun 02 at 104½ and Jun 05 at par. F) Callable from Jun 98 at par. F1) 6½% to Jun 03, then 6-mth Libor +215bp. G) Callable from Jun 03 at 105.313% falling to par. Equity clawback clause. Note: Yields are calculated on ISMA basis.

هكذا من الأصل

CONFERENCES & COURSES

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The 3rd World Aluminium Conference
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The International Independent Film Industry and The Capital Markets
The conference will discuss the evolving relationship between the international independent film industry, and the world of finance. Speakers include: The Rt Hon Tom Clarke CBE JP MP, Minister of State for Film and Tourism, Premila Hoon, Société Générale.
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Fax: 44 (0)1625 523937
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E-mail:
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JUNE 23
Seminar on Strategic Issues facing the ESI
• Economic efficiency (regulation, pricing and security) and how efficiency and reliability can be sustained • Security of supply in terms of generation/fuel reliability and network capability/security. • Structural arrangements developed in response to regulatory and business needs.
Contact: Institution of Electrical Engineers
+44 (0)171 344 5433
Date: Tuesday, 23 June 1998 10am-5pm
Email: rtrim@iee.org.uk
Tickets cost: £20.00
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JUNE 29
***Whose Property is it anyway?* Intellectual Property and Copyright**
Copyright, computer software, moral rights, employees and consultants, restrictive covenants, 'garden leave', patents, data protection, dismissal, injunctions. Legal experts from Bird & Bird.
Contact:
Julia Amber at The Industrial Society
Tel: 0171 479 1000 Fax: 0171 479 1111
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JUNE 29 - JULY 1
Third Roundtable with the Government of Romania
Meet the new key decision-makers. With the participation of President Emil Constantinescu and Prime Minister Radu Vasile.
For immediate registration and a copy of the programme, please contact:
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The Economist Conferences
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Fax: (43.1) 714 67 69
E-mail: monikadavies@eiu.com
Bucharest, ROMANIA

JUNE 30 - JULY 1
The Corporate Desktop: Technology, Status & Business Impact
How to harness the technological development - the transition to Windows '98; "thin" clients; the scope of Unicenter TNG; Microsoft SMS, IBM Tivoli; Novell Managewise, HP Openview; Total Cost of Ownership: the outsourcing option: service levels; handling the supplier/client relationship: risks and downsides. Case studies and technical presentations demonstrate the essential best practice for managing a cost-effective desktop today and a migration strategy for tomorrow.
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JUNE 30
European Employment Law Update
Overview of important developments in employment law emanating from Europe. Many provisions come into effect very shortly. Speakers: Olga Aikin CBE, LLB, Helen Leiser, DTI, Peter Reid.
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Julia Amber at The Industrial Society
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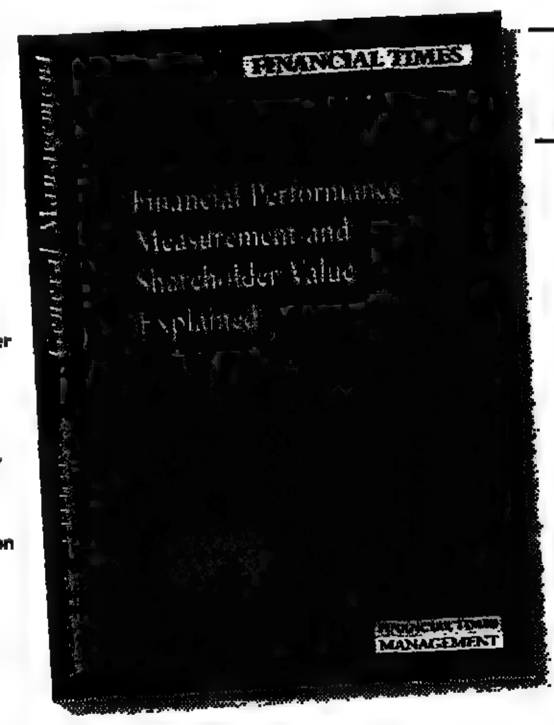

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CURRENCIES & MONEY

All eyes on Japan

By Susanne Voyle

Concerns over actions by policy makers are set to dominate currency markets this week ahead of US labour market data due on Friday.

The main focus will be on Japan, where the markets are waiting for signals of central bank intervention to prop up the flagging yen. Meanwhile, analysts will watch to see if Russia's successful start at shoring up confidence in the rouble at the end of last week continues to hold.

Paul Meggyesi, senior currency economist at Deutsche Bank in London, said fears over a second round of economic troubles in Asia – which could damage Hong Kong and China – could spark concerted central bank intervention by the Group of Seven leading industrial nations.

"The market wants to know whether policy makers have really adopted a policy of benign neglect or whether concerns about Asia will trigger some sort of action," he said.

Nick Parsons at Paribas Capital Markets said the "ominous silence" from the Japanese authorities meant the market would be watching the situation very closely. "The silence speaks volumes," he said. "It looks increasingly as if they are going to have to give in to the markets."

On Russia, analysts said the market would be waiting for signs of international support. "Russia has really stabilised," said Paul Chertkow, head of global currency research at Bank of Tokyo-Mitsubishi in London.

"Now it is a question of whether or not the IMF wants to provide more funds. If it does, there will be a general feeling that that the programme to reduce expenditure plus the tax programme appears credible."

Mr Parsons said the US non-farm payroll figures were becoming less important for the markets – but could still mean less trading ahead of the announcement.

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

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MONEY RATES

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US TREASURY BILL FUTURES (IMM) $1m per 100%

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LONDON MONEY RATES

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Other Fixed Interest

POUND IN NEW YORK

May 29	--Close--	-- Prev. close --
£ spot	1.6315	1.6280
1 mth	1.6292	1.6258
3 mth	1.6245	1.6216
1 yr	1.6000	1.6044

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

OTHER CURRENCIES

May 29	£	$
Czech Rp	53.7151 - 53.8081	32.9800 - 32.9860
Hungary	348.928 - 349.224	214.040 - 214.090
Iran	4893.60 - 4890.60	3000.00 - 3000.00
Kuwait	0.4980 - 0.4985	0.3050 - 0.3051
Peru	4.6524 - 4.6709	2.8600 - 2.8635
Poland	5.6828 - 5.7027	3.4880 - 3.4980
Russia	10.0334 - 10.0576	6.1570 - 6.1720
U.A.E.	5.9877 - 5.9916	3.6730 - 3.6731

BANK RETURN

The Bank Return table can be found on page 29 in today's edition.

هكذا من الأصل

EURO PRICES

EQUITIES

Euro-bank holds debut meeting

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European bourses are set to start the week on a subdued note. The stock markets in Austria, Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands, Norway, Sweden and Switzerland are all closed for the Whit Monday holiday today.

Students of the euro currency process will watch out for reports of the first-ever European Central Bank board meeting in Frankfurt tomorrow, although no significant announcements are expected.

On *Thursday*, figures for German first-quarter gross domestic product are due to be *released*, with the consensus expecting a 1 per cent quarter-on-quarter and 3.4 per cent year-on-year increase. The same statistic is also due from France, with quarterly growth of 0.8 per cent, and annual growth of 3.6 per cent, predicted.

And European markets will cast an eye over to the US on Friday, where the *non-farm payroll* report is usually seen as a key influence on US Federal Reserve interest-rate policy.

Last week, markets were rocked by events in Asia, where the Hong Kong economy was shown to have contracted in the first quarter, and in Russia, which tripled its interest rates to 150 per cent in an attempt to defend the rouble.

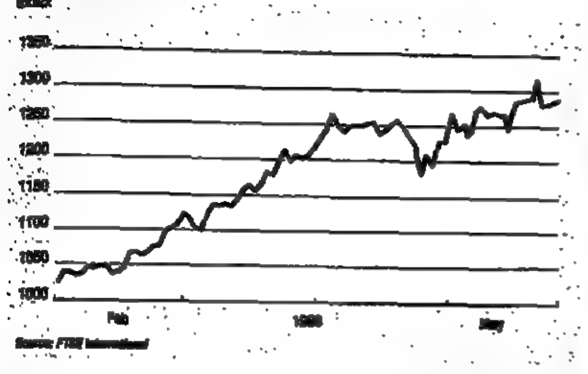
Denmark provided good news, with the central bank cutting rates by a quarter of a percentage point after the electorate had ratified the expansion of the European Union in a referendum. The Eurotop 300 index fell a couple of points on the week.

Friday saw a strong performance by the chemicals sector, which gained 2.1 per cent on the back of takeover speculation concerning *Hoechst*. The German chemicals group gained Ecu 2.7 to Ecu 43.86.

Roche, the Swiss pharmaceuticals company, was one of those linked to the Hoechst speculation and gained Ecu 179.1 to Ecu 9,319.13. Bayer, the other suitor mentioned, rose Ecu 1.5 to Ecu 43.36.

German industrial group *Mannesmann* said it expected further profits and earnings per share increases in 1998 and its shares jumped Ecu 54.2 to Ecu 887.97, helping the engineering sector gain 1.6 per cent on the day.

Eurotop 300 Eurobloc
Index



THREE MONTH EURO FUTURES (LIFFE)

[illegible]

THREE MONTH EURO OPTIONS (LIFFE)

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION

[illegible]

FTSE Actuaries Share Indices — European Series

May 29

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1228.81	+0.36	+4.41	1.98	13.80	1253.98
FTSE Eurotop 100	2816.57	+0.54	+8.61	2.05	16.06	1000.81
FTSE Ebloc 100	1031.84	+0.44	+4.46	1.65	7.02	1038.90

[illegible]

OTHER INDICES

[illegible]

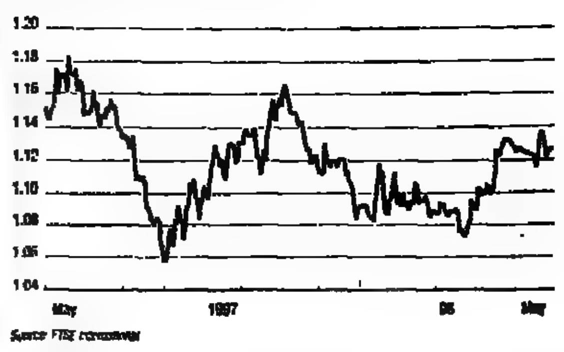
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

May 29	Currency code	Closing mid point	Change on day	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	14.057807	-0.0014	-0.01	+0.0029	+0.01
Belgium	BEF	41.205155	-0.0214	[illegible]	-0.0268	-0.07
Czech Republic	CZK	36.969640	-0.0904	[illegible]	+0.6650	+1.83
Denmark	DKK	7.616301	-0.0005	-0.01	-0.0025	-0.03
Finland	FIM	6.075725	-0.0002	[illegible]	-0.0004	-0.01
France	FRF	6.709091	+0.0061	+0.09	+0.0057	+0.09
Germany	DEM	1.999226	-0.0003	-0.01	+0.0003	+0.01
Greece	GRD	341.465243	-1.3699	-0.40	-1.6533	[illegible]
Hungary	HUF	240.051748	-0.8809	-0.37	+1.5602	+0.65
Ireland	IEP	0.792379	-0.0008	-0.10	-0.0020	-0.25
Italy	ITL	1970.069420	-0.2825	-0.01	-1.1615	-0.06
Luxembourg	LUF	41.205155	-0.0214	-0.05	-0.0268	-0.07
Netherlands	NLG	2.252998	-0.0002	-0.01	+0.0003	+0.01
Norway	NOK	8.446695	-0.0180	-0.22	+0.0197	+0.23
Poland	PLN	3.914795	-0.0229	[illegible]	+0.0469	+1.21
Portugal	PTE	204.598796	-0.1059	[illegible]	-0.0826	[illegible]
Romania	ROL	9543.084450	-24.7222	-0.26	-122.2656	-1.26
Russia	RUB	6.918456	+0.0007	+0.01	-0.0807	-1.15
Slovakia	SKK	38.682573	-0.0497	-0.13	+0.0598	+0.15
Spain	ESP	168.684116	-0.1703	-0.10	-0.1633	-0.10
Sweden	[illegible]	8.781544	-0.0114	+0.13	+0.0357	+0.41
Switzerland	CHF	1.658097	-0.0017	+0.10	-0.0054	-0.32
United Kingdom	GBP	0.687640	-0.0026	-0.38	-0.0086	-1.23
ECU	[illegible]	1.014640	-0.0004	-0.04	-0.0017	-0.16
Americas						
[illegible]	BRL	1.288838	-0.0031	-0.24	-0.0200	-1.53
Canada	CAD	[illegible]	-0.0054	-0.33	-0.0181	-1.10
Mexico	MXN	9.696232	+0.0182	+0.18	+0.0537	+0.55
United States	USD	1.121397	-0.0032	-0.28	-0.0160	-1.41
Pacific/Middle East/Africa						
Australia	AUD	[illegible]	-0.0186	-1.03	-0.0087	-0.48
Hong Kong	HKD	8.689702	-0.0229	-0.26	-0.1226	-1.39
Japan	JPY	155.386310	-0.3942	-0.25	+1.0308	+0.67
Singapore	SGD	1.827218	-0.0059	-0.31	+0.0169	+0.91
South Africa	ZAR	5.781920	[illegible]	-0.54	-0.0065	-0.11

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0380, ESP 0.0848, IEP 0.0115, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

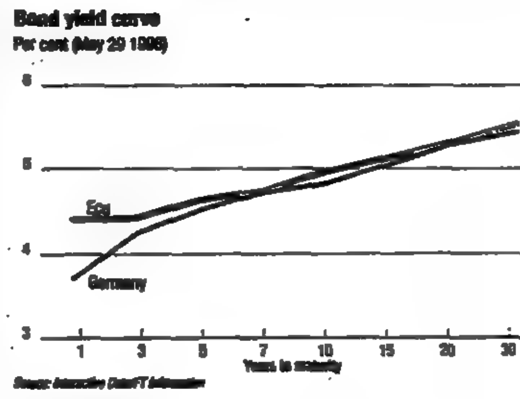
Bilateral conversion rates against the D-Mark

May 29	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0366	+0.02	+0.02	7.0375	3.74	+0.02
Belgium	20.6255	20.6106	-0.07	+0.01	20.617	3.77	+0.05
France	3.35386	3.3558	+0.06	-0.01	3.3555	3.7	-0.02
Finland	3.04001	3.039	-0.03	-0.01	3.0412	3.84	+0.12
Ireland	0.402676	0.3963	-1.58	-1.31	0.4014	5.92	+2.20
Italy	990.002	985.4162	-0.46	-0.39	990.9031	4.67	+0.95
Luxembourg	20.6255	20.6106	-0.07	+0.01	20.617	3.77	+0.05
Netherlands	1.12674	1.1269	+0.01	+0.02	1.1268	3.7	-0.02
Portugal	102.505	102.339	-0.16	-0.11	102.6127	4.18	+2.46
Spain	85.0722	84.8749	-0.23	-0.12	85.1129	4.2	+0.48
Germany	1		+0.00	+0.00		3.72	-0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3. Forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (May 29 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

[illegible]

EUROZONE CORPORATE BONDS

May 29	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.640	5.01	-0.03	-0.24	+0.04
France (Rep of)	04/08	5.250	N/A	102.520	4.92	-0.03	-0.25	-0.05
Italy (Rep of)	05/08	5.000	AA	99.740	5.03	-0.02	-0.33	+0.06
Portugal (Rep of)	06/08	5.375	AA-	102.500	5.04	-0.01	-0.24	+0.07
Euro issues								
Abbey Natl Treas Srv	03/03	4.875	AA	100.790	4.68	-0.03	-0.15	+0.05
Gen Electric Cap Crp	10/04	5.500	AAA	103.580	4.83	-0.04	-0.23	+0.11
Oest Kontrollbank	04/08	5.250	AAA	101.520	5.05	-0.04	-0.30	+0.08
Cred Local de France	04/08	5.250	AA+	100.270	5.21	-0.04	-0.29	+0.24
Ecu issues								
Bayer Hypo & Wech Bk	07/01	5.000	A+	101.360	4.52	-0.03	-0.18	+0.10
Cred Foncier France	03/04	8.375	A	115.130	5.27	-0.02	-0.29	+0.55
Euro Inv Bank	04/04	5.250	AAA	103.140	4.62	-0.03	-0.30	-0.10
ABN Amro Hldg NV	04/07	6.375	AA-	107.650	5.27	-0.04	-0.32	+0.35

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99

EUROZONE CREDIT SPREADS vs ECU

May 29	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	-0.03	+0.01	+0.14
France Telecom	AA+	11/06	6.250	FRF	+0.18	+0.14	+0.32
Halifax	AA	07/07	5.625	DEM	+0.17	+0.19	+0.38
Ing Bank NV	AA-	01/08	5.500	NLG	[illegible]	+0.17	+0.33
Bayer Hypo W Bk	A+	02/02	6.750	ITL	+0.27	+0.31	+0.66
Cred Foncier	A	02/03	7.250	DEM	+0.27	+0.34	+0.93
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.29	[illegible]	+0.69
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.28	+0.27	+0.62
Bank of China	BBB	07/08	7.125	DEM	+0.55	+0.77	[illegible]
Natl Bk of Hungary	BBB-	06/01	[illegible]	ATS	+0.73	+0.83	+1.40
Korea Dev Bank	B+	11/02	5.625	FRF	+4.46	+4.47	+4.73

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Allied Domecq	†N	618½xd	-1.1	Q24.73	1.7	6,387	11.5	1558
Bulmer (HP)	†	358½	0.8	14.82	2.2	189.8	12.1	2085
Burn Stewart	‡	21	—	1.7	–	12.6	27.10	1918
Diageo	♣N	692½xd	-5.8	Q18.0	1.3	24,729	30.3	2791
Glenmorangie A	♠	780	—	14.2	♦	106.1	22.12	3237
B	♠	802½	—	7.1	♦	36.1	22.12	3238
Highland	†	309½xd	-.3	9.0	2.4	408.1	5.5	2880
5¾pc Cv Sb Bd		99	—	Q5¾%	–	48.0	5.1	2823
Kirin Y	‡	970½	-1.4	Q24%	–	6,804	25.6	1119
Matthew Clark	♣‡	199	-6.4	20.9	1.5	176.1	24.12	2153
Merrydown	†	51	2.0	3.1	–	9.58	21.7	3352
Seagram C$		$27⅞	-4.4	Q66c	–	9,381	25.2	–

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
ABN Amro Fl		£14⅛	-6.4	Q84%	2.2	20,806	5.97	1010
ANZ A$		435½	3.7	Q48c	♦	6,484	12.96	–
Abbey National		1093	0.3	30.7	2.1	15,444	9.3	5411
Alliance & Leicester	‡	828	2.6	29.8	2.4	4,024	14.4	6880
Allied Irish I£	‡	806	-9	[illegible]	2.4	6,921	2.3	1394
Anglo Irish I£	♣†	168xd	-.6	Q3%	2.4	428.4	18.5	1395
Asahi Y		230½	-9.4	Q14%	–	6,358	25.9	3049
Banco Bilbao Viz Pta	‡	[illegible]	-.6	[illegible]	–	21,257	30.10	–
Banco Santander Pta	‡	[illegible]	-3.0	Q14%	2.3	18,028	6.4	–
Bank Ireland I£	‡	1161	-2.5	[illegible]	♦	5,918	24.11	1390
Bank Scotland	‡	785½xd	-3.9	9.86	3.6	8,700	5.5	1742
9¾pc Ird Pf		188¼xd	1.1	9¾%	–	476.2	5.5	1482
9¼pc Ird Pf		167¼xd	1.2	9¼%	–	167.2	5.5	1485
Bk of Tokyo Mitsubishi Y		[illegible]	-9.3	Q17%	♦	28,024	25.9	–
Barclays		1694	-1.7	37.8	2.9	25,771	25.2	1754
Dai-Ichi Kangyo Y		[illegible]	-3.9	Q17%	1.2	11,987	25.9	–
Deutsche DM		[illegible]	-1.3	[illegible]	–	24,485	5.96	1057

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

	Selling Price	Yield Gr's	City-Line
A$ Accum	A$20.461	3.70	40907
C$ Accum	C$19.452	3.70	40941
DM Accum	DM33.014	2.40	41228
DFl Accum	[illegible]	[illegible]	[illegible]
ECU Accum	Ecu14.154	3.10	41230
FFr Accum	[illegible]	2.30	[illegible]
HK$ Accum	HK$130.99	3.20	41316
Lire Accum	[illegible]	4.20	[illegible]
NZ$ Accum	NZ$44.384	7.30	41544
£ Accum	£14.332	6.30	[illegible]
SFr Accum	SFr20.526	0.33	41550
US$ Accum	[illegible]	4.50	41575
Yen Accum	Y2694 7	0.10	41582

Prices for dealing May 29

Jupiter Asset Management (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda 001 441 292 2760

Royal Bk of Canada O/S Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

BT Fund Managers (Ireland) Ltd
80 Harcourt Street, Dublin 2

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

Bank of Cyprus Group
1 Harbourmaster Place, IFSC Dublin 1

BERMUDA (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

Tilney (Ireland) Ltd
20/22 Lower Hatch Street, Dublin 2 00 3531 7806873

IRELAND (REGULATED)(**)

Foreign & Colonial Emerging Markets Ltd

Frank Russell Investments (Ireland) Ltd

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

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ABN AMRO Funds – Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (x)

American Phoenix Investment Portfolios (x)

Bank Von Ernst & Cie AG

Fleming Group – Contd.

Foreign & Colonial Emerging Markets Ltd (x)

Foreign & Colonial Portfolios Fd Sicav(x)

Morgan Stanley Sicav

ACM Offshore Funds – Contd.

Credit Suisse Asset Mgmt Funds – Contd.

Merrill Lynch Asset Management – Contd.

Swiss Bank Corporation – Contd.

Equitable Life (International)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

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WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE

AUSTRIA (May 29 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (May 29 / Frs.)

[illegible]

CZECH REP (May 29 / Koruna)

[illegible]

DENMARK (May 29 / Kr)

[illegible]

FINLAND (May 29 / Mkk)

[illegible]

FRANCE (May 29 / Frs.)

[illegible]

GERMANY (May 29 / Dm.)

[illegible]

GREECE (May 29 / Drachma)

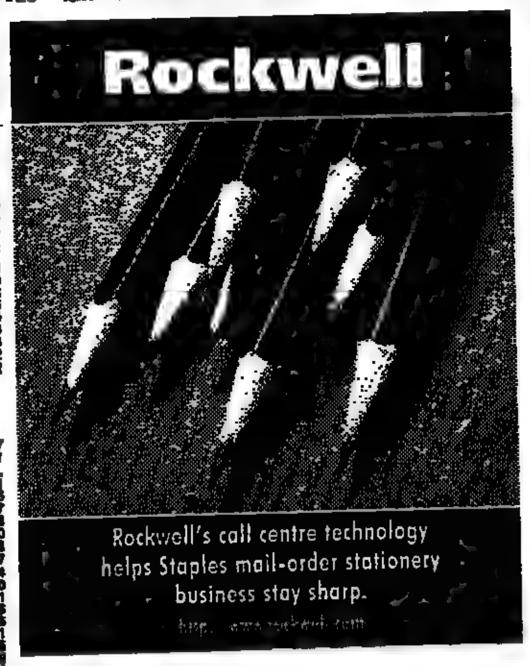
[illegible]

ITALY (May 29 / Lire)

[illegible]

NORWAY (May 29 / Kroner)

[illegible]



POLAND (May 29 / Zloty)

[illegible]

PORTUGAL (May 29 / Escudo)

[illegible]

SPAIN (May 29 / Pts.)

[illegible]

NETHERLANDS (May 29 / Fls.)

[illegible]

SWEDEN (May 29 / Kronor)

[illegible]

SWITZERLAND (May 29 / Frs.)

[illegible]

TURKEY (May 29 / Tk Lira)

[illegible]

PACIFIC

JAPAN (May 29 / Yen)

[illegible]

HONG KONG (May 29 / H.K.$)

[illegible]

INDONESIA (May 29 / Rupiah)

[illegible]

MALAYSIA (May 29 / MYR)

[illegible]

NEW ZEALAND (May 29 / NZ $)

[illegible]

SINGAPORE (May 29 / S$)

[illegible]

AUSTRALIA (May 29 / Aust$)

[illegible]

SOUTH KOREA (May 29 / Won)

[illegible]

TAIWAN (May 29 / TW $)

[illegible]

THAILAND (May 29 / Baht)

[illegible]

AMERICAS

CANADA

TORONTO (May 29 / Can $) 4 pm close

[illegible]

MONTREAL (May 29 / Can $) 4 pm close

[illegible]

MEXICO (May 29 / Peso) 12.30 pm

[illegible]

AFRICA

SOUTH AFRICA (May 29 / Rand)

[illegible]

Emerging markets: IFC investable indices

[illegible]

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 29 1998 US Dollar Index	% chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY MAY 28 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	198.55	-0.9	190.51	173.91	184.03	210.85	3.2	3.76	197.02	178.29	172.52	182.12	210.80	243.87	190.26	232.38
Austria (23)	245.36	29.8	223.06	214.91	227.41	227.29	28.7	1.45	246.42	224.25	215.76	227.78	227.65	253.73	181.60	199.08
Belgium (26)	354.26	39.2	322.06	310.29	328.34	321.01	38.1	2.26	353.21	321.42	309.28	326.49	319.33	357.37	234.33	250.90
Brazil (26)	219.44	-8.0	199.50	192.20	203.39	464.59	-5.2	2.19	221.91	201.94	194.31	205.12	469.61	322.44	184.94	267.48
Canada (120)	241.26	13.6	219.33	211.32	223.61	254.19	15.5	1.58	240.97	219.29	211.01	222.75	254.01	248.78	199.10	205.01
Denmark (34)	504.14	12.7	458.33	441.57	467.27	465.70	11.8	1.30	506.54	460.98	443.55	468.23	466.69	521.81	375.32	383.14
Finland (26)	426.25	58.0	387.51	373.35	395.07	484.67	52.3	1.89	425.06	386.81	372.20	392.91	481.97	451.12	267.45	273.64
France (79)	322.72	34.9	293.39	282.66	299.11	302.86	34.1	1.95	321.29	292.37	281.39	296.98	300.40	328.64	213.42	214.39
Germany (58)	296.99	29.4	270.00	260.13	275.28	275.26	28.4	1.20	293.22	266.84	258.78	271.04	271.04	303.12	204.89	214.75
Greece (37)	296.57	0.0	269.62	259.76	274.88	647.35	0.0	1.43	291.23	265.02	255.01	269.20	636.44	307.94	264.88	–
Hong Kong, China (68)	267.62	-25.0	243.30	234.41	248.05	266.25	-25.0	5.95	266.28	242.30	233.15	246.12	264.84	580.03	262.93	506.13
Indonesia (27)	34.79	-47.3	31.63	30.48	32.25	241.19	8.3	2.93	33.14	30.16	29.02	30.63	231.75	254.90	27.28	238.85
Ireland (16)	515.61	28.4	468.75	451.61	477.89	513.36	29.3	1.91	511.31	465.20	447.72	472.63	508.14	560.44	336.58	346.36
Italy (54)	165.97	41.1	150.88	145.37	153.83	217.75	40.2	1.29	167.08	152.06	146.30	154.45	218.63	177.15	86.98	89.11
Japan (480)	91.79	-3.7	83.45	80.40	85.08	80.40	2.7	0.96	92.10	83.81	80.64	85.13	80.64	141.12	88.52	132.74
Malaysia (107)	151.11	-8.1	137.37	132.35	140.05	223.50	-9.3	2.89	153.15	139.37	134.10	141.56	227.97	541.84	113.56	535.27
Mexico (29)	1462.82	-18.9	1329.87	1281.26	1355.82	14100.03	-11.3	1.73	1438.35	1308.90	1259.46	1329.54	13758.67	1901.98	1416.05	1416.05
Netherlands (19)	521.41	27.2	474.02	456.69	483.27	476.12	26.1	1.93	517.92	471.31	453.51	478.74	473.62	532.74	369.56	377.87
New Zealand (14)	67.83	-11.2	61.67	59.41	62.87	67.28	-3.7	4.85	67.87	61.76	59.43	62.73	67.81	98.47	57.83	89.70
Norway (38)	313.79	-1.8	285.27	274.84	290.84	320.81	0.4	1.95	312.43	284.31	273.57	288.79	319.23	374.64	281.82	315.23
Philippines (22)	87.98	10.9	79.98	77.06	81.54	170.77	8.3	1.22	87.91	80.00	76.97	81.26	171.07	173.10	57.54	169.82
Portugal (18)	281.26	0.0	255.69	246.35	260.68	351.23	0.0	1.09	284.71	259.09	249.30	263.17	354.73	299.39	276.07	–
Singapore (42)	170.29	-24.4	154.81	149.15	157.83	131.36	-24.8	2.31	171.85	156.39	150.46	158.85	132.61	401.75	144.01	391.46
South Africa (42)	289.34	9.0	263.05	253.43	268.18	328.07	15.5	10.85	280.71	255.44	245.79	250.47	317.17	384.24	227.68	354.89
Spain (31)	381.00	40.2	346.38	333.71	353.13	436.75	39.2	1.75	383.66	349.13	335.95	364.84	439.00	398.54	298.26	282.21
Sweden (48)	592.81	26.3	538.94	519.24	549.45	667.23	24.6	1.70	593.02	539.65	519.27	548.16	684.65	615.21	439.98	451.05
Switzerland (30)	408.24	20.1	372.05	358.45	379.31	375.14	21.7	1.06	408.12	371.39	357.36	377.25	372.57	414.95	265.85	284.32
Thailand (38)	18.34	-5.0	16.67	16.06	17.00	28.75	-20.3	9.52	18.68	17.01	17.24	18.19	30.63	69.09	13.10	61.60
United Kingdom (207)	377.99	13.9	343.64	331.08	350.34	343.64	14.8	2.87	377.38	343.40	330.43	348.82	343.40	401.84	293.10	302.15
USA (634)	445.15	12.3	404.69	389.90	412.59	445.15	12.3	1.44	447.56	407.28	391.90	413.71	447.56	482.18	340.47	341.71
Americas (808)	402.71	11.8	366.11	352.73	373.25	340.50	12.8	1.46	404.73	368.31	354.40	374.12	342.21	418.95	311.99	312.78
Europe (747)	359.07	24.2	326.44	314.50	332.80	340.13	24.1	1.96	357.98	325.77	313.46	330.90	338.52	367.08	258.75	261.75
Eurobloc (352)	103.75	0.0	105.98	108.05	103.95	103.98	0.0	[illegible]	108.91	105.65	107.56	103.23	103.25	108.34	100.00	–
Nordic (149)	515.41	25.0	468.57	451.44	477.71	522.71	24.0	1.69	615.47	469.08	451.36	476.47	520.99	536.58	389.48	381.13
Pacific Basin (868)	99.33	-6.2	90.50	87.00	92.07	87.18	-1.1	1.72	99.53	90.67	87.15	92.00	87.41	159.99	85.32	151.03
Euro-Pacific (1615)	207.60	13.9	189.73	181.83	192.41	182.54	15.6	1.91	207.26	188.61	181.48	191.58	182.08	216.04	172.03	197.22
North America (754)	432.21	12.4	382.93	378.56	400.59	432.37	12.4	1.45	434.42	395.33	380.39	401.58	434.60	449.61	332.48	333.36
Europe Ex. UK (540)	337.31	29.9	306.65	295.44	312.84	327.85	29.3	1.55	336.07	305.63	294.27	310.65	325.66	345.25	230.15	234.33
Europe Ex. Eurobloc (395)	98.15	0.0	100.28	102.22	98.94	99.56	0.0	2.33	97.98	100.20	102.01	97.90	99.33	100.87	86.95	–
Europe Ex. UK Ex. Eurobloc (188)	102.22	0.0	104.44	106.46	102.42	102.23	0.0	1.30	102.02	104.33	106.22	101.95	101.66	104.20	98.32	–
Pacific Ex. Japan (388)	171.30	-14.5	155.73	150.04	158.77	175.84	-13.0	4.45	170.77	155.40	149.53	157.85	175.95	318.98	161.31	306.73
World Ex. Eurobloc (2114)	96.66	0.0	87.88	84.67	89.59	97.58	0.0	1.74	98.95	88.23	84.90	89.62	97.87	100.18	96.68	–
World Ex. US (1832)	210.84	13.2	191.67	184.67	195.41	189.43	15.0	2.00	210.42	191.49	184.25	194.51	188.88	220.16	176.30	200.56
World Ex. UK (2259)	277.84	12.6	252.41	243.18	257.34	255.11	13.4	1.58	278.28	253.22	243.65	257.21	255.51	287.02	234.24	239.06
World Ex. Japan (1986)	382.71	14.9	347.93	335.21	354.72	376.87	16.1	1.80	383.34	348.84	335.67	354.34	377.30	394.39	301.68	303.21
The World Index (2466)	286.15	12.7	260.15	250.64	265.22	283.11	13.6	1.72	286.67	260.97	251.02	264.99	283.48	296.57	241.30	245.30

[illegible]

4 pm close May 29

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-New yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

FINANCIAL TI

US INDICES

INDEX FUTURES

WORLD MARKETS

THE NASD

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 29	May 28	May 27	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8899.95	8970.20	8936.57	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.87	104.86	104.91	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3346.61	3336.96	3332.50	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	284.65	280.78	277.42	291.18 (2/4)	262.88 (9/1)	291.18 (2/4/98)	10.53 (8/7/32)

DJ Ind. Day's high 9060.13 (9048.70) Low 8858.60 (8861.58) (Theoretical)
Day's high 9027.00 (8993.12) Low 8888.85 (8866.70) (Actual)

Standard and Poors	May 29	May 28	May 27	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1090.82	1097.60	1092.23	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1272.58	1282.26	1276.70	1311.45 (22/4)	1077.40 (9/1)	1311.45 (22/4/98)	3.52 (30/6/32)
Financial‡	131.52	132.05	131.21	140.83 (14/4)	110.65 (9/1)	140.83 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	565.28	567.10	563.33	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.64 (25/4/42)
Amex Comp	714.60	713.56	708.84	753.67 (22/4)	648.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Comp	1778.86	1794.62†	1781.16	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	468.92	465.81	460.26	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

US DATA

MARKET ACTIVITY

Volume (million)	May 29	May 28	May 27
NYSE	565.432	588.900	703.560
Amex	24.749	25.337	33.390
NASDAQ	685.971	661.144	800.016

NYSE	May 29	May 28	May 27
Issues Traded	3,511	3,500	3,516
Rises	1,725	1,927	370
Falls	1,208	1,049	2,704
Unchanged	578	529	442
New Highs	62	26	18
New Lows	68	66	198

NYSE TRADING ACTIVITY

Volume : [illegible]

Friday	Stocks traded	Close price	Day's change
[illegible]	8,738,400	27⅞	−⅜
Lilly	5,650,200	61¼	−1⅝
Philip Mor	5,019,900	37⅝	+¼
[illegible]	5,514,000	31¾	+1⅛
Compaq	4,595,100	27¾	−⅛
UnPac	4,532,500	48⅝	−3⅛
[illegible]	4,370,700	84	+1½
Chrysler	4,327,800	53⅝	−1⅛
AT&T	4,002,200	60⅝	+⅜
Crown	3,580,900	67⅝	−1⅞

NASDAQ TRADING ACTIVITY

Volume : 685,971,234

INDEX FUTURES

WORLD MARKETS AT A GLANCE

JAPAN

FRANCE

GERMANY

UK

THE NASDAQ STOCK MARKET

4 pm close May 29

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close May 29

EASDAQ

JUST ANOTHER BANK

FT GUIDE TO THE WEEK

MONDAY 1

Poverty and democracy

The Organisation of American States holds its 50th annual assembly in Caracas. Foreign ministers of member states, including Madeleine Albright, US *secretary of state, will discuss the* region's democracy, justice and poverty. Some observers suggest there could be a vote against the US embargo on Cuba or an invitation to Cuba to join the OAS. (To June 3).

Botha back in court

The trial of P.W. Botha, South Africa's former president, who is charged with ignoring a subpoena to appear before the Truth and Reconciliation Commission, resumes. The statutory commission wants to question Botha over claims that his government knowingly tortured and killed anti-apartheid activists.

Banana on trial

The *trial* of Canaan Banana, *former* Zimbabwe president, on 11 indecent *assault charges begins in Harare.*

FT Survey

Greece and South East Europe.

Holidays

Austria, Belgium, Denmark, EU institutions closed, France, Germany, Hungary, Iceland, Ireland, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, Australia, New Zealand *Benin, Central African Republic, Ivory* Coast, Senegal, Togo.

TUESDAY 2

Supply and design

Space 98, a two-day congress and exhibition at the London Arena, aims to encourage debate by bringing together the suppliers of services and material for

the building industry with leading individuals in architecture and design.

ILO conference

The International Labour Organisation holds its annual conference in Geneva (to June 18). Top of the agenda is a convention outlawing dangerous and exploitative forms of child labour and a declaration upholding fundamental labour rights. The opening of the conference will be attended by children from the Global March against Child Labour.

Employers and unions meet

Representatives of Europe's employers and trade unions meet in Brussels for a mini-summit, called by the European Commission, of the "social partners". The Commission wants this meeting to *discuss improving the "social dialogue"* between unions and employers.

OAS members meet from Monday and members may anger the US by inviting Cuba to join

Race action

European action against racism is the subject of a two-day European Union seminar in Manchester, UK.

FT Survey

African Banking; Luxembourg.

WEDNESDAY 3

Presidency conference

Robin Cook, UK foreign secretary, and Wolfgang Schuessel, the Austrian *chancellor, are among the speakers at a* Royal Society of International Affairs conference in London on Austria's presidency of the EU.

Premier event

Romano Prodi, Italy's prime minister, and Helmut Kohl, Germany's chancellor, hold a summit meeting in Bologna.

Democratic choice

Democratic Action (AD), Venezuela's social democratic party, holds its national convention in Caracas to choose a candidate for presidential elections.

Efta looks west to Canada

The European Free Trade Association holds its biannual *ministerial meeting* in Reykavik. The four Efta members, Iceland, Norway, Switzerland and Liechtenstein, hope to open talks with Canada on a free trade agreement.

Swiss discuss impact of euro

In Geneva, Swiss bankers and financial experts meet to discuss the impact of the euro on the competitiveness and operation of Switzerland's financial centre.

FT Survey

Review of Information Technology.

THURSDAY 4

Pressure points

Emma Bonino, European Union Commissioner, speaks at a Brussels conference on pressure groups, their effect on EU policies and the response of corporations to their demands.

Asean panel meets

Association of South East Asian Nations' senior ministers meet in Tokyo.

Nigerian protests

Opposition groups plan protests in Lagos against Nigeria's military rule to coincide with the second anniversary of the killing of the wife of detained presidential claimant Moshood Abiola.

Memory of democracy

Ninth anniversary of the crackdown on student-led demonstrations for democracy in Tiananmen Square, Beijing.

28 years to cut red tape

EU social affairs ministers meet in Luxembourg to consider adoption of a company statute, which has been under *negotiation for 28 years,* aimed at helping businesses to operate more easily across the union. Statute supporters say it would enable companies to cut through *legal red tape.*

Paparazzi on trial

Court hearings begin in Paris in the case against photographers allegedly involved in the car chase in which Diana, Princess of Wales, and Dodi Fayed died on August 31 last year.

Exchange of views

The Association of International Foreign Exchange Dealers holds its 40th congress in Geneva (to June 6).

Euro-X clubbers

Finance ministers of the 11 members of the future euro-zone meet in Luxembourg for the inaugural meeting of their Euro-X club. Rudolf Edlinger, Austria's finance minister, will chair the session which will determine the rules for the club which is likely to lead to greater economic co-ordination in the Emu bloc. However, in deference to Britain, which holds the EU presidency but is initially staying outside monetary union, Gordon Brown, UK chancellor, will make opening remarks before leaving the room.

Holidays

Ghana, Iran.

FRIDAY 5

London conference

United Nations and British non-governmental organisations (NGOs) hold a conference in London on *developing partnerships to mark* the 50th anniversary of the Universal Declaration of Human Rights. This will be be followed by People's Europe 98, a conference with input from 50 NGOs.

Home sweet home

Switzerland hands over the restored Palais Wilson in Geneva to become the headquarters of the United Nations Human Rights Commission. The lavishly refurbished former hotel, built in 1875, was the home of the League of Nations in 1920-1936, before it moved to the building now occupied by the United Nations in Geneva.

Save our seas day

World Environment Day takes as this year's theme 'For life on earth: save our seas'. Some 3.5bn people inhabit coastal areas and depend on coastal and marine *environments for their livelihood.*

Central Europeans meet

Foreign ministers of the 16 countries in the Central European Initiative meet in Brijuni, Croatia.

FT Surveys

Foreign Exchange: Private Equity: The Buy-Out Market.

Holiday

Denmark.

SATURDAY 6

Korea move

Kim Dae-jung, South Korea's president, arrives in Washington at the start of a week-long visit to the US.

FT Survey

Guide to Unit Trusts (UK editions only).

Holidays

Malaysia, South Korea.

SUNDAY 7

Prize performance

The annual presentation ceremony of Tony Awards for the best Broadway productions is held in New York.

Vote on genetic engineering

Switzerland votes on a proposal to ban genetic engineering. It is the first country to allow its citizens to decide on this issue. Leading Swiss pharmaceutical companies such as Roche and Novartis warn they would have to move much of their research abroad if the ban went ahead. *Supporters of the initiative argue* that 95 per cent of genetic research projects will be unaffected by their proposal.

Green programme

Germany's Green party holds a congress in Bonn to approve short-term policy objectives.

Holidays

Malta, Ukraine.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: The National *Association of Purchasing* Managers index for May should be strong, reflecting indications of continued US growth during the second quarter.
Tuesday: The UK's Purchasing Managers' index will be closely watched for signs of a slowdown in the service sector signalling a weaker domestic economy. Likely to be important to the *Bank of England's interest* rate decision on Thursday.
Wednesday: Australia's national accounts should show robust headline growth, despite only moderate upturn in domestic demand.
Thursday: Both Germany and France announce data for GDP growth in the first quarter of this year, giving a good indication of activity in the engine of the euro-zone. *Deutsche Bank forecast* quarterly growth of 1 per cent in Germany, and 0.8 per cent in France.
Friday: Labour market figures in the US, including non-farm payrolls for May, are likely to stabilize around growth of 250,000. But hourly earnings should tick up by 0.3-0.4 during the month, reflecting the demand for staff.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	UK	Chart' Inst' of Purchasing Managers		49.5%		France	Q1 prelim' gross domestic profit**	3.6%	3.0%
June 1	Canada	Q1 consumption***†	2.5%	2.3%		Italy	Apr producer price index**	1.0%	0.8%
	Canada	Mar real GDP-factor cost*	0.4%	0.9%		UK	Apr construction orders		
	Canada	Q1 real GDP***†	2.9%	3.0%		UK	May CBI distributive trades		26.0%
	US	Nat' Ass' of Purchasing Managers	52.3%	52.9%		Canada	Apr building permits*	0.3%	1.2%
	US	Apr construction spending		-0.5%		US	Apr factory orders	1.5%	0.3%
	US	May domestic auto sales	6.7m	6.8m		US	Apr factory inventories		0.2%
	US	May domestic light truck sales	6.6m	6.6m		US	Q1 productivity revised	0.5%	0.2%
	Japan	May auto sales**		-7.4%		Japan	Apr overall personal consumer expen'**		-5.7%
	Japan	May Forex reserves		-9.0%		Japan	Apr personal cons' expen' workers**		-8.7%
Tues	Germany	May purchasing managers index†		55.29		Japan	Apr income workers**		-2.5%
June 2	UK	Apr consumer credit	£1.1bn	£1.4bn	Fri	Italy	May consumer price indx (ex tobacco)**	1.7%	1.8%
	UK	May official reserves		N/A	June 5	Canada	May employment†*	35k	72k
	US	BTM-Schroders May 30		0.1%		Canada	May unemployment rate	8.3%	8.4%
	US	Apr leading indicators	0.0%	0.2%		US	May nonfarm payrolls	225k	262k
	US	Apr new home sales	835k	828k		US	May manufacturing payrolls		-10k
Weds	UK	May Char' Ins' Purch' & Supply survey		58.1%		US	May hourly earnings	0.3%	0.5%
June 3	US	Apr home completions		1.49m		US	May average workweek	34.7	34.4
Thurs	Germany	Q1 GDP pan Germany***(Bundesbank)	1.0%	0.3%		US	May unemployment rate		4.3%
June 4	Germany	Q1 GDP pan Germany** (Stats Office)	3.4%	2.4%		US	Apr consumer credit	$4bn	$1bn
	Germany	Q1 GDP west***(Bundesbank)	1.0%	0.3%	During the week...				
	Germany	Q1 GDP east***(Bundesbank)		0.1%		Germany	Apr capital account preliminary		-DM12.6bn
	Germany	Q1 GDP west**(Stats Office)		2.6%		Germany	Apr net foreign bond purchases		-DM2.7bn
	Germany	Q1 GDP east**(Stats Office)		0.8%		Japan	May trade balance (first 20 days) nsa†		Y41bn
	France	Q1 prelim' gross domestic profit***	0.8%	0.6%					

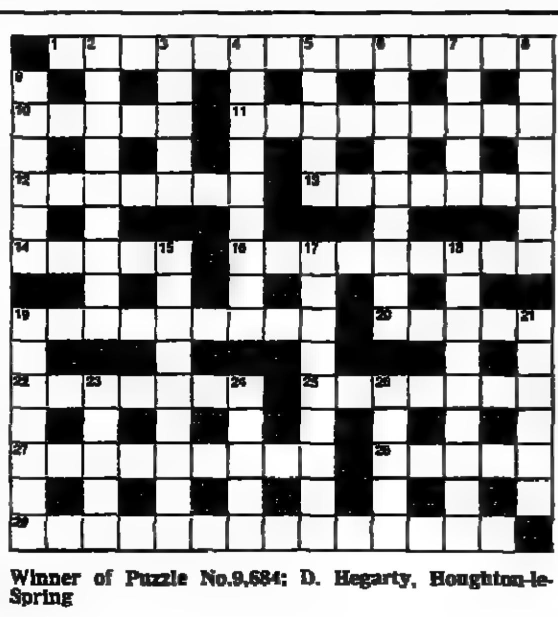
*month on month, **year on year, ***qtr on qtr, †seasonally adjusted *Statistics, Standard & Poor's MMS.*

ACROSS

1 Going by sea enjoy sea food and overindulge in alcohol (5,4,1,4)
10 Afterwards, in the Bull at Erith (5)
11 Is top new film accepted by hopeful people? (9)
12 An unmarried mother is different! (7)
13 Quickly run to sink (7)
14 Banish team to lake in centre of Greece (5)
16 Main turn in one concert (9)
19 He'd beg Ida to have changes made in vain (9)
20 Cut off the last bus constantly (5)
22 Short essay on weather (7)
25 Student brought in to be educated (7)
27 Frank found following man hard (9)
28 Guide leader ready to complain (5)
29 Passing one little girl going to the toilet? (8,1,5)

DOWN

2 Helping in Gateshead with an allotment system (9)
3 Point thorn out (5)
4 Appear, on stage, to glance back? (4,5)
5 Makes mother drop off when it's in planes (5)
6 Magazines our hosts bring round (9)
7 Inserted a note inside this month (5)
8 Stockings for Roy? Is he kinky? (7)
9 Like having piano on hire (6)
15 Once packed key inside and cursed! (9)
17 Are not about to move a sundial somewhere in Spain (9)
18 One working in opening on top of device (9)
19 Encounters black flies (7)
21 Flush with coloured end, perhaps (6)
23 Designs first comb for swimmer (5)
24 Waves from an overturned canoe (5)
26 Corner of article with broken leg (5)



Winner of Puzzle No.9,684: D. Hegarty, Houghton-le-Spring

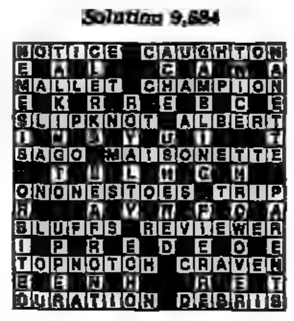
MONDAY PRIZE CROSSWORD
No.9,696 Set by GRIFFIN

A magnum of Laurent Perrier Rosé champagne for the first correct solution opened. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel FT desk clock. Solutions by Thursday June 11, marked Monday Crossword 9,696 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 15. Please allow 28 days for delivery of prizes.

Name.......................................

Address.......................................

Solution 9,684



JOTTER PAD

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GREECE AND SOUTH-EAST EUROPE

While politicians strengthen links with Brussels, many Greek businessmen are forging ties with the Balkans. **Kerin Hope** reports

EU outpost looks closer to home

While Greece's moderate Socialist leaders have their sights set firmly on joining the European single currency at the earliest possible date, the country's increasingly confident business community is looking in another direction.

Qualifying for monetary union is overwhelmingly seen as a political objective in a country which remains a distant outpost of the EU, and despite its long pro-western tradition has still not managed to integrate fully with Europe.

Even if Greece succeeds in meeting its self-imposed deadline for membership by January 1 2001, it will face the daunting task of trying to compete in the euro-zone.

Greek companies are benefiting, however, from a steady decline in inflation and sustained growth rates above 3 per cent, which are driven by transfers from EU structural funds amounting to almost 4 per cent of gross domestic product. They are also aware that this improvement is boosting Greece's standing with its neighbours

The Balkans – often referred to as "south-east Europe" to avoid connotations of disputed borders and inter-ethnic conflict – and the countries of the Black Sea rim is the region where many Greek companies would prefer to compete in the 21st century.

While Croatia and Slovenia are considered too closely connected with central Europe to offer many opportunities for the Greeks, the southern Balkan states and Romania offer a potentially promising market of 50m people. And from Athens, the Black Sea rim, with a population of 150m, appears more accessible than the EU's Nordic member-states.

Despite high levels of political and economic risk, the Greeks claim they feel welcome in countries which share their Orthodox culture. They have two potent icons: the Greek merchants who traded throughout the Ottoman empire in the 18th and 19th centuries and the shipowners who controlled maritime trade in the Black Sea until the 1940s.

Since the demise of communism, expatriate Greeks whose families took refuge in eastern Europe after the nationalist victory in the 1940s civil war have helped smooth the way for Greek companies trying to penetrate markets from the Danube to the Caucasus.

Over the past seven years, about 3,000 Greek companies – mostly joint ventures with local partners – have set up operations across the region. Direct investment by Greek-owned companies is estimated at $800m to $900m, although for tax reasons much of this amount has been directed through Luxembourg or Cyprus-based holding companies.

The bulk of Greek investment has gone to Bulgaria and Romania, with Albania and Macedonia together attracting less than $200m, mainly from small companies based in northern Greece. Only a handful of Greek companies have started manufacturing in central Europe, Ukraine or Russia.

At one end of the scale, the investors are small trading companies, retailers and clothing manufacturers seeking to rebuild lost competitiveness by shifting production to low-wage countries such as Bulgaria and Albania.

At the other are Greece's biggest banks and fast-growing companies in food processing and services which have ambitions to become the region's multinationals. Several Greek shipowners have tried, with varying degrees of success, to manage tankers and dry cargo ships belonging to Romania's large state-owned merchant fleet.

Western disapproval has not prevented the Greeks from exploiting their close political ties with President Slobodan Milosevic of Yugoslavia and his government. Thanks partly to their willingness to supply Serbia and Montenegro with fuel during the Bosnian war, in defiance of UN sanctions, the Greeks have participated in deals such as last year's sale of 49 per cent of Telekom Serbija, the state operator, from which they would probably have been excluded under normal circumstances.

Greek companies accept, however, that it will be several years before they earn a respectable return on their Balkan investments. By contrast with the fast-track reform countries of central Europe, political and economic upheavals have stalled or even temporarily reversed the region's transition to a market economy. Although the pace of reform is picking up, output in the Balkans has not yet returned to pre-1989 levels.

Albania's struggle to recover from anarchy caused by last year's failure of pyramid savings schemes, and the worsening conflict in Serbia's rebellious Albanian-populated province of Kosovo, underline the continuing threat to stability in the southern Balkans. The main fear for Greece is that if the fighting in Kosovo spreads to Macedonia, a huge wave of refugees would pour into northern Greece.

Greece's government already faces difficulty in containing social tensions arising from the influx of economic immigrants from eastern Europe and the former Soviet Union, who form almost 5 per cent of Greece's population and 13 per cent of the workforce. Tolerance of the new arrivals, who are mainly Albanians, may wear thin as the immigrants move out of the underground economy and start competing for jobs with Greeks.

The Socialists have worked hard to reverse Greece's confrontational policy in the early 1990s, which revived its neighbours' suspicions that Athens had expansionist ambitions and isolated the Greeks from their European partners. Greece is making a much greater effort to live up to its responsibilities as the only Nato and EU member in the Balkans by promoting political and economic co-operation on the broadest possible scale, a policy that for once does not exclude its traditional rival, Turkey.

The level of Greek trade and investment in Macedonia, while lower than in the rest of the region, is rising fast. Though still unresolved, the dispute over the republic of Macedonia's name – which Greece claims should be changed because of an implied threat to the northern Greek province of Macedonia – has faded into the background.

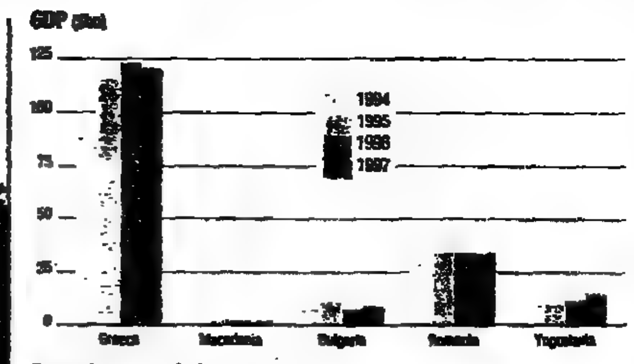
Supporting its neighbours' aspirations to join Nato and the European Union in practical ways will become a more important part of Greek policy in coming years as its neighbours – led by Bulgaria and Romania – intensify their efforts to join the European club.

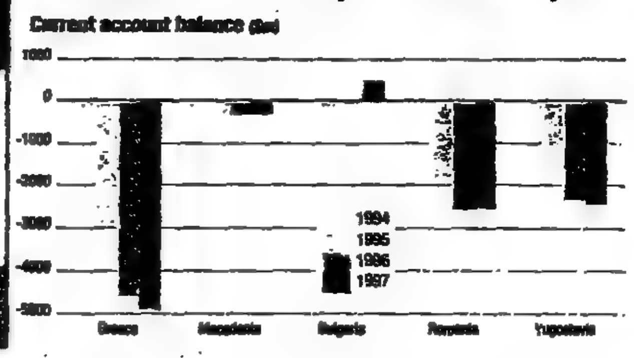
It will take time, however, for old Balkan attitudes to disappear. A deep-rooted envy persists of Greece's success in joining western European institutions and participating in the post-war surge of prosperity, while its neighbours remained poverty-stricken and isolated in the former Soviet camp.

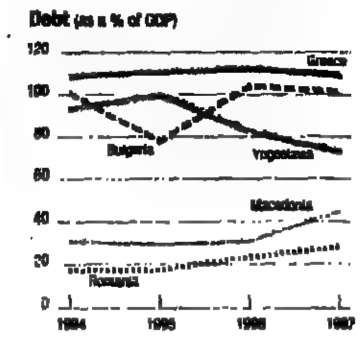
But Greece itself has suffered as a result of distorted economic development during the cold war period. Cut off from its natural trading and investment partners, which have much richer natural resources and a stronger industrial base, the Greeks were forced until recently to rely on a fragile services industry and remittances from emigrant workers, and an offshore shipping industry.

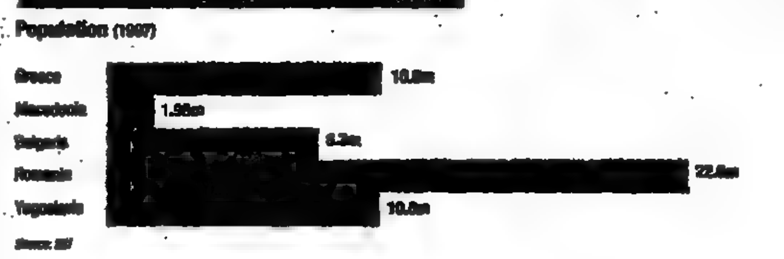
Greece is also undergoing its own transition, though cushioned by generous transfers from Brussels as the EU's poorest member-state. It faces similar problems to its neighbours in overcoming political resistance to market reforms. The state's role in the economy at around 60 per cent of GDP is bigger than most ex-communist countries in central Europe, and privatisation of banks and utilities is proving a difficult process.

In the longer-term, much EU aid to Greece is likely to be directed towards tightening links with its neighbours, with the aim of making the Balkans a unified regional economy. The process will involve heavy public and private investment in infrastructure, including the construction of highways, additional border crossings and transit pipelines for oil and gas. Such projects promise to bring the Balkans, including Greece, closer to western Europe, and put an end to the region's long isolation.









Inflation (annual % change in CPI)

	1994	1995	1996	1997
Greece	10.9	8.9	8.2	5.6
Macedonia	121.8	15.9	3.0	3.6
Bulgaria	96.2	62.0	123.0	1082.6
Romania	136.8	32.3	38.8	154.8
Yugoslavia	72.0	74.1	93.1	21.2

BANKING • by Kerin Hope

Weighing options for expansion

Greek banks are now considering purchases to serve the Balkan markets

Greece's banks have followed their customers to the Balkans to provide services that are difficult to find in the local market. Now they are considering acquisitions of banks being offered for sale in Bulgaria, Romania, Serbia and Macedonia.

Risks remain high in a region where attempts at banking reform have been undermined by political and economic crises. There is little public confidence in the sector, and large amounts of hard currency are held as "mattress money" rather than in bank deposits.

The past two years have seen the collapse of half of Bulgaria's 35 banks and of Albania's rudimentary banking system. In Macedonia, a pyramid scandal brought the resignation of the central bank governor and the arrest of his deputy on suspicion of complicity in the scheme.

Serbia's international isolation has encouraged the growth of an informal banking system in which trading companies finance their operations by taking deposits and paying high rates of interest in hard currency. In Romania, the sector is still dominated by lossmaking state banks which have little to offer small private companies.

The choice for Greek banks entering the Balkan market has been between setting up a branch which could expand into a local network or opening a banking subsidiary. Four banks have opted for a branch, while two have have established local subsidiaries, in Albania and Romania.

National Bank of Greece, the country's biggest, has opened branches in Bulgaria, Romania and Albania. Preparations are complete for setting up a branch in Belgrade, but its opening has been delayed by EU sanctions against Serbia over the crisis in Kosovo. Branches in Kiev and Moscow are to be set up in the next two years.

As banking privatisation gets under way in the Balkan region Greek banks will have also the option of bidding for one with a ready-made branch network. But political considerations could affect such transactions, according to Greek bankers. They are concerned that neighbouring governments may be reluctant to sell a controlling stake in a state-owned bank to a Greek institution.

On the other hand, close political ties between Athens and Belgrade have resulted in Greek banks receiving invitations to acquire lossmaking state-owned banks in Serbia.

NBG showed interest in acquiring Stopanska Banka, the biggest bank in Macedonia, which was offered for sale by the government under a structural reform programme approved by the International Monetary Fund. NBG started due diligence procedures at Stopanska, but the continuing dispute with Greece over Macedonia's name raised a political barrier to the deal.

The Macedonian government has since agreed to sell a 55 per cent stake together with management rights to a consortium led by Erste, Austria's second-biggest bank. The consortium also includes the International Finance Corporation, the World Bank's private sector lending arm, and the European Bank for Reconstruction and Development.

NBG also put in a bid to buy PostBank, a Bulgarian bank being privatised by the Bank Consolidation Agency, which controls the state's shareholdings in the banking sector. Its offer for 78 per cent of PostBank was marginally lower than that of Japan's Nomura Securities. But if the agency's negotiations with Nomura fall through, NBG would be next in line.

The third bidder for PostBank was EFG Eurobank, the Athens-based bank which belongs to the Latsis oil and shipping group. Eurobank made its offer in partnership with AIG, the US insurance group.

Theodore Karatzas, NBG's governor, says the bank is committed to expanding in Bulgaria regardless of whether it acquires PostBank. NBG may open a branch network covering southern Bulgarian towns where Greek investors are active. It would start by renting disused branch offices belonging to some of Bulgaria's failed banks.

Theodore Karatzas: committed to expanding NBG in Bulgaria

"The potential for growing the business is much greater if you set up a branch network because loans are made on the basis of the parent bank's capital adequacy," Mr Karatzas says.

NBG has been offered a controlling stake in Slavija Bank in Serbia, one of a group of state-controlled banks which have few assets other than their branch networks, and huge liabilities in the form of foreign exchange deposits frozen at the time of the break-up of the Yugoslav federation.

A proposal under study calls for several big Greek companies with sizeable investments in Serbia to take equity stakes alongside NBG, which would be responsible for management.

In Albania, where the Socialist government has warm political relations with Greece, Greek banks are being encouraged to expand. NBG already has a branch in Tirana and plans to open two more in the south of the country in the next year. Its deposits have soared as Albanians switched funds out of local banks amid the political turbulence which followed the collapse of a series of pyramid finance schemes.

Alpha Credit Bank, the biggest private Greek bank, has also opened a branch in Tirana to support Greek companies returning to Albania and to handle remittances from Albanians working in Greece.

Both banks face strong competition in the local market from Bank of Tirana, a subsidiary of Bank of Piraeus, a fast-growing private Greek bank. Bank of Piraeus has specialised in trade financing for Albanian as well as Greek companies and has already opened a branch at Fier.

PROFILE Banca Bucuresti

Romania potential is being exploited

Greek-owned banks were prominent in Romania before the second world war, financing Greek shipowners who dominated sailing routes across the Black Sea and the country's flourishing commodities trade with central Europe.

But their assets were nationalised by Romania's communist rulers and most of the Greek business community fled to seek refuge in Athens.

Despite increasing growth of bilateral trade and rising investment by Greek companies, only one Greek-owned bank has been established in Romania since its transition began.

Banca Bucuresti, controlled by Alpha Credit Bank, the biggest private banking group in Greece, opened its doors in 1994. As well as providing corporate services for Greek companies operating in Romania, it has a built up a network of nine branches.

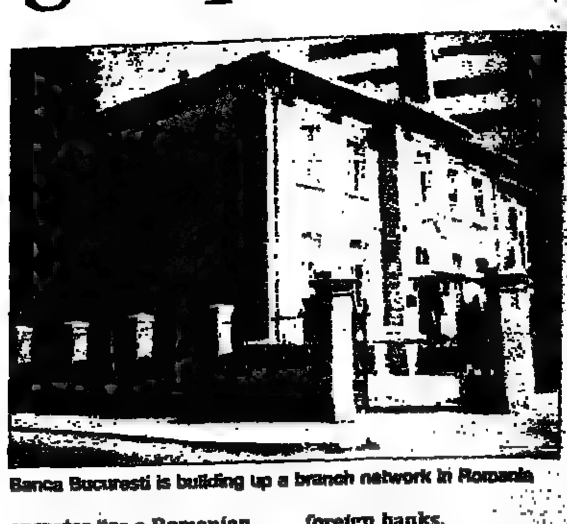
Romania was chosen for Alpha's first Balkan venture "because it's twice the size of the other markets in the region with a lot of natural resources, so it offers the most potential", says Panagis Vourloumis, the Athens-based chairman of Banca Bucuresti.

But politics also influenced the decision. "Like other countries in the region, Greece has troubles with its immediate neighbours," Mr Vourloumis adds. "But we don't have a border with Romania and historically there haven't been problems between Greeks and Romanians."

Banca Bucuresti's shareholders include the European Bank for Reconstruction and Development with a 20 per cent stake. The Alpha Credit group controls almost 80 per cent through a subsidiary, Alpha Romania Holdings, which has several Greek shareholders with interests in Romania.

Among them are the Leventis group, which controls Hellenic Bottling, the Coca-Cola franchise holder for parts of Romania; Silver & Baryte, the mining group which supplies bauxite to Romania's aluminium industry; and Papastratos, the leading Greek cigarette manufacturer which exports to Romania.

Mr Vourloumis stresses that Banca Bucuresti operates "as a Romanian bank with only a handful of expatriate Greeks in the management, and a strong emphasis on developing local business through the regional network".



Banca Bucuresti is building up a branch network in Romania

Romania's banking sector is still dominated by inefficient, under-capitalised state banks, and economic transition is moving more slowly than in central Europe.

High inflation rates, currency instability and a decline in output last year have increased the risks of local lending.

Banca Bucuresti last year achieved a small increase in profits in US dollar terms to $2.05m. Its total assets grew by 20.4 per cent to $79.6m, but loans increased by just 6.2 per cent to $25.5m.

Mr Vourloumis says that at present the bank's corporate activities in Bucharest support the branch network. Lack of experience in retail lending and the gaping holes in financial information presented by prospective borrowers have necessitated a restrictive lending policy.

But when recovery comes it is likely to be led by regional companies, he says. "Manufacturing activity is split among a number of major population centres, so the opportunities are there for developing a strong retail network. In the medium-term, I don't think we'll regret the effort spent developing the branch network."

Banca Bucuresti has already doubled its capital base to $20m to handle increased demand for funds by Greek companies expanding in Romania, to strengthen the branch network and to compete more effectively with other foreign banks.

Competition is strengthening with the arrival of international institutions such as ABN-Amro, Citibank and ING Barings. It will intensify further after the privatisation of two Romanian banks, planned to take place this year.

Banca Bucuresti has already ensured access to investment banking services through its subsidiary, Bucharest Investment Group-Brokerage (Big), which is also part of the Alpha Credit group. The bank has a 20 per cent stake in Big, which started by providing corporate advisory services to Greek investors and later won mandates to advise the State Ownership Fund on several privatisation deals.

When Romania's capital market started to expand, Big became one of Bucharest's leading stockbrokers. But after last year's boom, which saw trading volume reach almost $30m daily, volume has slumped to around $1m a day.

Sergiu Oprescu, Big's chief executive, says the company is keeping up with providing research for international portfolio investors, and has branched out into other activities. For example, it is setting up a leasing company in partnership with the Danube Fund, the Alpha Credit group's private equity fund for the region.

"We saw last year what the market can do in the right conditions. It will take off again," says Mr Oprescu. "But there are plenty of other opportunities to pursue in the meantime."

Kerin Hope

EXPORT CREDIT INSURANCE ORGANISATION • by Kerin Hope

Help available for rebuilding

The ECIO has been remodelled to support a wave of investment abroad

The wave of destruction which followed the collapse of Albania's fraudulent pyramid schemes last year took Greek investors by surprise. None had insured their businesses against political risk, says Mrs Christina Sakellarides, who heads Greece's rejuvenated Export Credit Insurance Organisation (ECIO), as well as the leading Greek exporters' association.

Until the Albanian crisis, in which Greek-owned factories, shops and warehouses were looted and sometimes burned. Mrs Sakellarides faced an uphill task to persuade Greek companies to take out coverage with ECIO.

"Companies working in Albania felt secure because they had cultivated good relations with government officials," she says.

"On the one hand, optimism is an integral part of Greek business culture, and on the other businessmen didn't want to lay out money for the insurance premium."

Shouldering high levels of risk may be acceptable for the family-owned companies which were the main Greek investors in Albania. Over the next year they will receive assistance from the Greek government to rebuild their businesses in Albania as part of a Dr20bn bilateral loans package signed earlier this year.

Until the drive to penetrate Balkan markets started in the early 1990s, Greek companies had been reluctant to invest abroad because of the government's inability to provide coverage against political risk.

Mrs Sakellarides recalls a disastrous blow to Greece's construction industry caused by the Iran-Iraq war in 1980. The Iraqi government cancelled agreements with Greek companies building a series of housing and infrastructure projects. The Greek government failed to persuade Iraq to come up with compensation, or to provide any itself.

The government is still trying to settle the claims of Greek constractors who have not received payment from Libya for construction projects completed in the late 1970s.

"Contractors now take precedence at ECIO," Mrs Sakellarides says. Demand for the organisation's services is also rising among publicly-owned Greek companies establishing themselves in the Balkans and smaller investors setting up joint ventures in the Black Sea rim countries.

To suppport the wave of Greek investment in eastern Europe and beyond, ECIO has been remodelled along the lines of similar organisations elsewhere in the EU. Its guarantee capital has been increased to Dr300bn, while coverage has been extended to include construction projects and leasing of equipment and machinery up to a maximum of 90 per cent of their value.

However, a handful of big Greek companies have chosen to invest in eastern Europe and the Black Sea rim through holding groups in Luxembourg or Cyprus.

They are not eligible for political risk coverage from ECIO, but because of their size they are able to include a portion of this exposure in a private insurance package.

Mrs Sakellarides says ECIO has provided coverage against political risk for investments with a total value of $60m, mainly in the former Soviet Union, Romania and Serbia.

ECIO has followed its counterparts in the rest of the EU by excluding Albania from its coverage because of continuing political unrest. And it has stopped accepting requests for coverage in Serbia, in line with the EU's ban on government credits for business in Serbia because of the conflict in Kosovo.

TRADE • by Kerin Hope

Opportunities are growing

Renewed links help to counter diminishing business with EU nations

The re-opening of Greece's historic markets in the Balkans could not have come at a better time for the country's struggling exporters. By gaining access to a region with a population of more than 50m, Greek companies have been able to counter the effects of their declining competitiveness in the European Union.

Because of Greece's isolated position at the edge of Europe, and a small domestic market of only 10m people, trade has focused on sectors with little international potential, such as tourism and services.

Now that links are restored with the Balkan countries, which are rich in natural resources by comparison with Greece and have a much bigger industrial base, trade prospects are brightening.

The region's roads, railways and ports are in urgent need of improvement, but the basic infrastructure is already in place.

Despite the sharp decline in output across the region which followed the demise of communism and the violent break-up of the Yugoslav federation, Greece's trade with its northern neighbours has grown steadily. Exports to Balkan countries accounted for 20 per cent of total exports last year, compared with just 7 per cent in 1989.

The value of Greek exports to the Balkans – including Turkey – reached $1.6bn in 1996, compared with $326m in 1989. Over the same period imports grew from $505m to $933m, according to figures from the Panhellenic Exporters' Association.

These figures are higher than the central bank's statistics because they are based on customs documents rather than repatriated earnings which fail to take account of income retained outside Greece or of the large numbers of transactions carried out in drachmas in the Balkan countries.

Economic transition has created steadily-growing demand for fresh and processed food, white and brown goods and building materials from the region's new consumers. Despite a fall in per capita incomes in the southern Balkans, amounting to more than 30 per cent since 1989 according to official figures, the sustained expansion of the grey economy provides a wealth of opportunity for Greek traders.

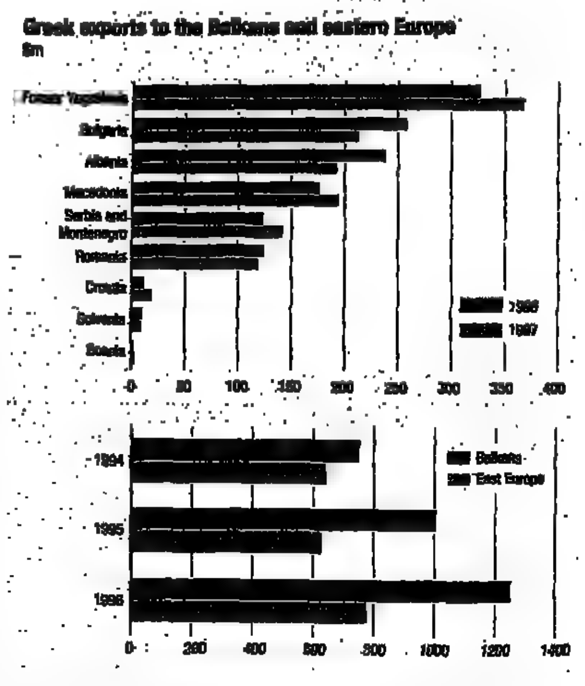
By contrast, Greece's trade with the EU has started to decline, partly as result of the "hard" drachma policy pursued until earlier this year which reduced the competitiveness of exports. Between 1995 and 1997, the share of exports going to EU partners fell from 61 per cent to 46 per cent as Greek companies concentrated their efforts on penetrating the Balkans, central Europe and the former Soviet Union.

"These are fragile and unpredictable markets with a high degree of risk," says Christina Sakellarides, president of the exporters' association. "Last year, exports to Bulgaria, Romania and Albania fell because of economic and political crises – although by a smaller margin than you'd expect."

A rise in exports to Serbia and Macedonia, however, compensated for the decline elsewhere in the Balkans, while exports to Ukraine and Russia also increased.

Across the region, small trading concerns, often consisting of one or two entrepreneurs, have revived the tradition of the travelling Greek merchants who bought and sold goods between the Black Sea and the Adriatic under the Ottoman empire. In Romania and Bulgaria, these companies have prospered by channelling products of state enterprises which had lost their markets in the former Soviet Union to Greece, Cyprus and the Middle East.

Spyros Argyropoulos, who imports chemicals and timber and sells Greek thread and textiles in Bulgaria, says: "State-owned companies were desperate to unload products, often at very low prices, just to be able to pay salaries. These opportunities are shrinking as companies are privatised, but trading relationships have become more stable, even if margins are lower."



The Greek government has provided more than $150m in revolving credits to boost trade in the Balkans. Over the past year, the fastest-growing market has been Macedonia, which has become a target for small Greek exporters based in Thessaloniki, less than three hours' drive from Skopje, the Macedonian capital.

The unresolved dispute over Macedonia's name has not deterred Greek exporters, although Macedonian businessmen complain about restrictions on the issue of visas for visiting Greece.

However, more must be done to encourage cross-border links and develop "intra-industry" trade, which involves goods in the same product category that are differentiated by price and quality. At present Greece lags behind the rest of the EU in focusing on less favourable "inter-industry" trade, which deals in widely varying types of goods.

Closer links with towns across the border would bring opportunities for Greek companies to co-operate with low-cost Balkan producers to develop specialised products that could compete internationally. The services sector would also develop rapidly as contacts increased.

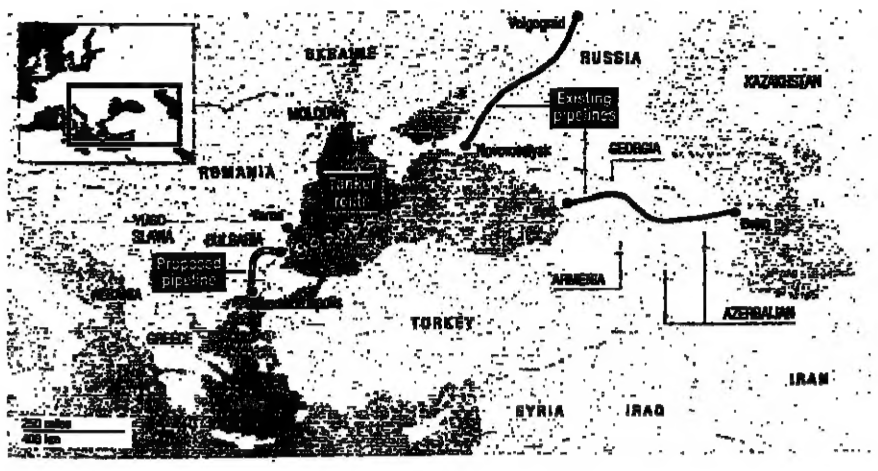
Greece has made a start by agreeing with Albania and Bulgaria to open three new border crossings with each country. The additional crossings would also relieve worsening traffic jams at the handful of existing crossing points.

The unrest still prevailing in Albania has caused a postponement, but local residents on both sides of the Bulgarian border are impatiently awaiting the opening of new crossing points in the Rodope mountains.

BALKAN OVERVIEW • by Anthony Robinson

The powerful forces

Changes in Europe will help to raise the region's strategic profile



The Brussels-centric view of Europe inevitably places Greece on the periphery of the continent, separated from the populous industrial heartland by a mysterious and ill-defined zone called the "Balkans". But two powerful forces are at work which will drastically change the region's relative isolation from the modern European mainstream.

The first is the shift in the European centre of gravity to the east as the German capital moves from Bonn to Berlin and eastern enlargement of the European Union brings the contiguous states of Czechoslovakia, Hungary, Poland, as well as Slovenia and Estonia, into an enlarged central European heartland.

The second seismic shift in the geo-strategic pattern is in the opposite direction and will bring the oil and gas-rich western part of central Asia and the Caspian region into closer economic and political contact with Europe.

The result will be to raise the strategic importance of the Black Sea and the Mediterranean and Black Sea littoral countries which are expected to be the prime markets for the oil and gas transported from central Asia via Russia, the Caucasus and Turkey.

One of the challenges facing Greece, currently an isolated outpost of the EU in the Balkans, will be how best to position itself to benefit from these broad currents which promise to transform the economic and political prospects of the Balkan and Black sea region as a whole.

But the key decisions affecting the region's future prosperity are likely to pass over the heads of the smaller countries.

Exploiting, processing and transporting oil and gas from the Caspian region is big politics and big money. All the new producing countries want to ensure maximum revenues to finance their own broader economic development.

The main strategic decisions, however, will be taken by the oil and gas multinationals who will put up the billions of dollars required. These decisions will have to be acceptable to those countries whose goodwill is required to ensure safe and reliable exit routes for the large volumes of oil and gas expected to flow westward.

Whether Greece benefits directly from the new energy flows depends largely on how much of the oil flows across the Black Sea and how many oil tankers Turkey is prepared to allow through the already congested Bosphorous.

Turkey's determination to play the environmental safety card to the full is partly due to genuine fears about the risks of shipping ever-increasing quantities of oil through the heavily populated Bosphorous.

But such risks are also ammunition to support Turkey's own strategic desire for the bulk of Caspian oil to flow through Turkish pipelines to its Mediterranean port of Ceyhan, terminal of the currently under-used pipeline from the Iraqi oilfields.

For political and logistical reasons the oil companies are expected to insist on several export routes, including one across southern Russia to Novorossiysk. Work is already under way on rebuilding the smaller pipeline which runs from Azerbaijan through Georgia to the port of Supsa.

The fate of Greek-Bulgarian plans to build a 300-km pipeline from the Bulgarian port of Burgas to the north Aegean port of Alexandroupolis depends greatly on the volumes of oil which will ultimately be transported across the Black Sea from these Russian and Georgian ports to markets in the Mediterranean.

The advantage of the proposed pipeline is that it bypasses the Bosphorous bottleneck. The disadvantages are the high costs involved in repeatedly loading and unloading operations and the environmental dangers in taking tankers through the Aegean with its island resorts and multitudinous cruise ships, yachts and small boats.

Meanwhile, the change of regime in neighbouring Bulgaria has improved prospects for the pipeline. Bulgarian participation is no longer perceived as a state venture but is open to private investment, according to Alexander Bozhkov, the deputy prime minister. Mr Bozhkov masterminded the rapid privatisation policies which have helped to transform the prospects of Greece's northern neighbour.

Whatever the outcome of the pipeline project it is clear that economic recovery in the Black Sea region provides Greek banks and companies with the potential not only to take part in the region's privatisation process but also to benefit from expected higher living standards in the populous countries around the Black Sea. These include the 25m consumers in Romania and the 50m in Ukraine.

Greek companies, however, will face increasing competition from low cost but increasingly high quality central European companies and from Turkish banks and companies well entrenched in central Asia and other parts of the former Soviet Union.

The big question mark hangs over the future of Greece's western neighbour, Serbia. Belgrade is embroiled in a violent stand-off in Kosovo which is pushing Serbia further into isolation and bankruptcy and risking de-stabilisation in Macedonia and Albania itself.

Greek companies such as OTE have learnt the hard way that under the present regime Serbia is not a fit place for foreign investors. But the endgame is approaching for President Slobodan Milosevic. His successors will have a chance to rebuild the economy with international assistance – provided they show the convincing political will for reform displayed by the new Bulgarian government, and with less success so far, by the Romanians.

PROFILE Terra

Long-term view on farms

Cash-strapped farmers in the Balkans have few opportunities to buy new machinery. But managers at Terra, an agricultural equipment manufacturer based in the northern Greek city of Larissa, are taking a long-term view.

Small-scale equipment such as these ploughs are in demand with subsistence farmers

Agricultural output in the region has fallen dramatically since the demise of communism. The decline followed the break-up of collective farms and the hasty parcelling out of land to people who lacked the equipment and expertise required to cultivate smallholdings.

By the late 1980s farm machinery designed for working extensive acreages of wheat and other cereals was already in short supply. What remains is of little use to the new subsistence farmers, who need small-scale equipment to cultivate holdings which are often less than five hectares.

"Smallholders need small tractors, ploughs and cultivators so they can increase output and start selling their surpluses," says George Papadopoulos, Terra's sales manager. "On the other hand, the new co-operatives that are being formed will need more and bigger machinery."

Terra, owned by the Kondellis group, a Greek importer of tractors and farm machinery, makes agricultural equipment for Greek farmers. It has recently started manufacturing plough and cultivator parts under contract for German farm equipment suppliers.

Mr Papadopoulos says that Terra will continue to make old technology ploughs which are no longer in demand in Greece for export to small farmers in the Balkans: "We're small enough to stay flexible on production and this line of ploughs is much more affordable than bigger, more sophisticated ones."

The region's struggling commercial banks are reluctant to lend to the agricultural sector. Much of the new equipment that Balkan farmers have managed to obtain is paid for through bilateral and international aid schemes and EU grants.

Last year Terra sold about 500 small ploughs in Albania. Some were bought by Greek farmers who have rented land across the border, others by Albanians who used Terra's equipment while working as farm labourers in Greece.

"We work on the assumption that it may take another 10 years for an active farm equipment market to develop. In the meantime, we concentrate on building relationships," Mr Papadopoulos says.

Mr Papadopoulos believes that Albania, Macedonia and Bulgaria will eventually become important agricultural producers, exporting both to western Europe and to Turkey. He points out that "farmers in these countries should be able to make themselves into the EU's ecological producers.

"The land is suited to organic farming because large areas have been left uncultivated for almost a decade, and under communism the use of fertilisers and pesticides was much lower than other parts of Europe."

Terra also sells farm machinery produced by Kverneland of Norway and France's Kuhn group to Greek local farmers, and provides repair and maintenance services both for these groups and its own products.

The services network has been adapted and extended across the border. Terra has representatives around Albania who also provide training and advice on cultivation.

It has started selling cultivators and other equipment to newly-formed co-operatives in Macedonia, where farmers have pooled their resources in an attempt to revive cultivation of early vegetables for export to western Europe.

Macedonia is expected to become Terra's biggest market. It has already established links with several co-operatives formed by private farmers who acquired land sold off cheaply in the straitened circumstances of the early 1990s.

The government's plans to privatise Macedonia's big state-owned farms over the next two years will boost output. Tobacco growing and wine production is already being modernised, with much larger areas of vines.

"The distances are so short that we can get equipment and spares into Macedonia within three or four hours," says Mr Papadopoulos. "The scale of cultivation there is much bigger than in Albania and will develop more rapidly because farmers have much more experience of producing for markets."

Terra is setting up more gradually in Bulgaria, where a rush to restore land to pre-communist owners in the early 1990s resulted in large areas of farmland being abandoned. While cultivation of cereals has resumed as landholdings in central and eastern Bulgaria are consolidated, many small owners are unable to sell their holdings because they lack titles to their land.

"We expect to sell in Bulgaria through international agency programmes at first because there's such a desperate shortage of cash. But eventually southern Bulgaria will become an important market for us," Mr Papadopoulos says.

Kerin Hope

TELECOMMUNICATIONS • by Guy Dinmore

Waiting for a good connection

Troubled line: OTE's venture has been rocky Photo: Kester Eddy

Troubles have mounted to cast a shadow over Serbia investment

OTE, Greece's public telecoms operator, plans to grow by acquiring strategic stakes in regional telecoms companies being privatised. Its first foray into the Balkans, however, has proved troublesome.

The acquisition of a minority stake in Telekom Srbija, the Serbian operator, in partnership with Telecom Italia, has, so far, brought few positive results.

Since OTE and Telecom Italia bought stakes of 20 and 29 per cent respectively in Telekom Srbija for a total of DM1.57bn a year ago, the business has seriously deteriorated.

The non-convertible Yugoslav dinar was devalued by 45 per cent on April 1 and has since fallen by almost another 5 per cent on the black market. The inflation rate is picking up, with some analysts forecasting a 50 per cent rise by the year-end. Meanwhile, government-set tariffs on fixed lines have remained unchanged.

To make matters worse, the US and European Union have blocked official credits to Serbia and are freezing its government funds abroad in response to the widening conflict with the ethnic Albanian majority in the Kosovo province.

Nonetheless, Ivan Djurovic, Telekom Srbija's director for external relations, remains hopeful the company will turn in a profit this year.

"The devaluation had an impact on our operations but so far we are not suffering any major adverse effects," he says. "Last year a loss was anticipated, but we turned in a profit of 150m dinars and we don't see any reason why there should not be a profit this year."

The 1998 business plan unveiled in February is still on course, Mr Djurovic claims. Traffic is forecast to rise by 4.6 per cent and 90,500 new subscribers are to be brought on line.

Telekom Srbija will launch the country's second mobile telephone network in Belgrade in August. The network will have a capacity of 60,000 lines and it is expected to attract 25,000 users by the year-end. Within 18 months 40 per cent of Serbia will be covered.

The flourishing grey economy in Serbia has provided for rapid growth in the mobile telephony market.

Mobtel, a joint venture between Karic Brothers, prominent private business group, and PTT Serbia, the state-controlled telecoms holding company, expects the number of its subscribers to triple to 200,000 this year.

Mobtel, which was given exclusive cellular rights for 20 years, lost its monopoly when Telekom Srbija was granted its licence in a controversial concession by the government to the Greek and Italian investors.

Kosta Mitrovic, director of Telekom Srbija's network division, believes there is plenty of room in the market for both. Mobile tariffs are not controlled by the state.

Overall, Telekom Srbija plans to invest 1.372bn dinars this year, of which about DM220m – some 95 per cent – is to come from the two foreign partners. The company breathed a sigh of relief on May 17 when the US and its European allies lifted an investment ban on Serbia, imposed just a week earlier in response to the crisis in Kosovo.

Telekom Srbija expects the government to approve a rise in tariffs in line with inflation, but fears problems lie ahead if inflation continues to rise.

Mr Djurovic dismisses persistent reports of conflict between the three nationalities on the board, but admits there were initial differences in "work cultures and perceptions of obligations".

Officials at OTE have complained about a lack of transparency in dealings with their Serbian partners. The Greek operator does not plan to go ahead with the planned purchase of additional 4 per cent stake from Telecom Italia.

A senior OTE executive, who did not want to be named, said in Athens that there had been a series of "financial, management and cultural" problems within Telekom Srbija and it would be three to four years before OTE saw a return on its investments.

The Greek and Italian partners have had difficulty with the irregularities in the company's accounts which, for instance, disguise payments to Serbia's coalition of ruling parties. The two foreign investors are also constrained by a pledge not to lay off any of the operator's 13,500 strong workforce for five years.

Telekom Srbija executives say its annual report will not be made public. The nine Italian and Greek executives on the 18-member board have kept a low profile, holding only one press conference since the acquisition was completed last June.

At that time the deal represented a big breakthrough for the Serbian government under President Slobodan Milosevic in that it represented a financial lifeline. But a year later the money has been all but spent and no other large foreign investors have taken the plunge in what is still regarded as a high-risk country.

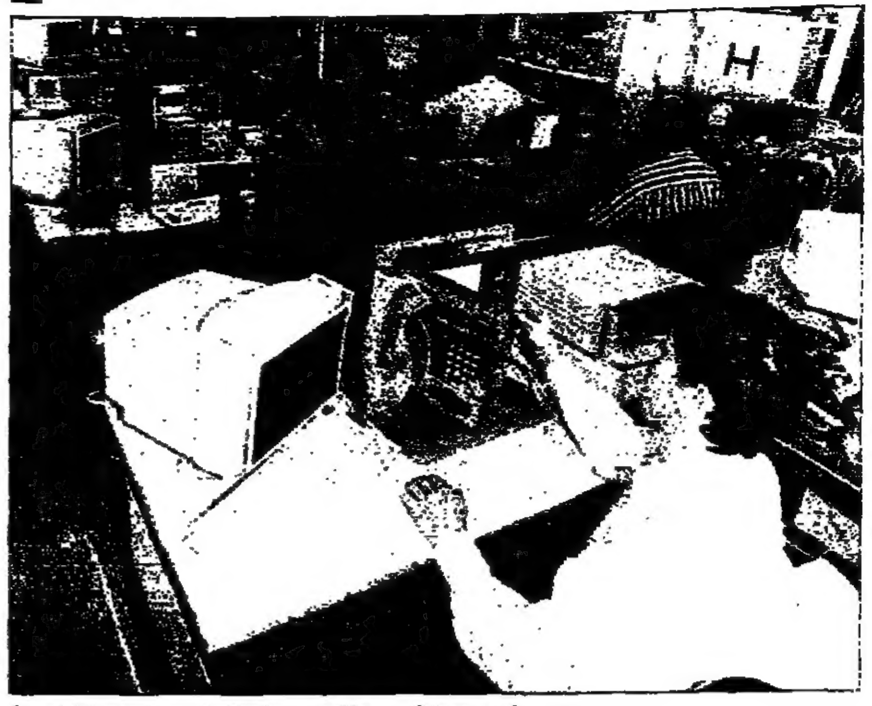
One analyst said the Greek and Italian partners were disappointed at the continued slide in business confidence in Serbia.

Telekom Srbija needs an increase in international calls where rates are around double those in much of western Europe. Local calls are cheap, with the typical Serbian subscriber paying a monthly bill of only about 30 to 40 dinars.

"Last year they expected demand per line to rise, especially in the business sector but this has not happened. It is flat. There are no foreign direct investments. The economic situation is dire," the analyst said.

PROFILE Intracom

An expansionist line



One of Intracom's production lines, making cardphone equipment

Intracom, the Greek telecoms equipment producer in which Sweden's Ericsson group holds a 12 per cent stake, was among the first manufacturers from Greece to seek new opportunities in the Balkan region after the collapse of communism.

Its subsidiary in Romania, a joint venture set up in 1993 with Automatica, a leading state-owned electronics company, has become the fastest-growing of Intracom's ventures in eastern Europe and the former Soviet Union.

Intracom's strategy is to expand by exporting equipment and technology designed for Greece's developing telecoms and informatics market to the transition countries. It also wants to set up manufacturing facilities in new markets through joint ventures with local electronics producers.

"The natural trend for any Greek company is regional expansion, but it has to be done effectively. Romania is the biggest market in the region and it has a well-educated workforce. It made sense to acquire a partner to gain access to some local added value," says Costas Tsoukalides, Intracom's general manager.

In Greece, Intracom manufactures Ericsson's AXE-10 digital switching system under licence for sale to OTE, the public telecoms operator, and also produces and operates cardphones and electronic lottery games. Analysts say group turnover this year will reach Dr80bn, with exports accounting for more than 30 per cent of sales.

In Russia, the group upgraded the Kremlin's telecommunications and launched a nationwide electronic lottery game, Olympic Lotto, in partnership with the Russian Olympic Committee. Through Hellascom, a joint venture with OTE, it has penetrated markets in other former Soviet republics such as Georgia and Armenia.

The Greek group has a 67 per cent stake in Intrarom, the Romanian joint venture. Its first manufacturing project was to assemble terminals for the group's electronic lottery games under a contract with Romania's state lottery organisation to modernise and expand the lottery system.

It now makes cardphones, both for Rom Telecom, the state operator, and for export. In addition to supplying OTE with 60,000 cardphones, Intracom has contracts to set up and maintain cardphone systems in 17 countries in eastern Europe, the former Soviet Union and the Middle East.

Intrarom's turnover is projected to double this year to $30m, with exports accounting for almost half of sales. But Mihai German, Intrarom's general manager, says he cannot make an accurate profits forecast because of "volatile exchange rates and the fact that payments from local customers are considerably delayed".

One reason for the group's successful start-up in Romania is that several of Intracom's senior managers lived or studied in Bucharest under communism. As a result, they have a flourishing network of business and political contacts.

Mr Tsoukalides, who studied semiconductor engineering at Bucharest Polytechnic, says: "It helps that Romania laid the foundations of an electronics industry in the 1960s, buying technology from France. In an unpredictable business environment, it also helps to have lots of friends from my student days."

By contrast, an Intracom venture in Bulgaria, set up in 1992 to modernise the state lottery system under an agreement similar to the Romanian one, has run into so many political and legal difficulties that most of its Greek managers moved to Belgrade last year to develop new business in Serbia.

Intrarom's factory on the outskirts of Bucharest, a $7m investment, was designed as a smaller version of Intracom's plant outside Athens. Its managers are Romanian and are encouraged to develop international alliances independently of the parent group, Mr Tsoukalides says.

The company has teamed up with IDT, a US company, in a project to produce an electronic billing system for Rom Telecom's analogue telephone subscribers.

Intrarom has also developed am electronic metering system for Renel, the Romanian state power utility, to monitor household electricity consumption and provide billing information to the company's accounting centres.

"The pilot project has worked well," says Mr Tsoukalides, "but it's probably a bit ahead of its time. In the present climate it may be hard to persuade Renel to acquire such a system, because its application would eliminate thousands of meter-readers' jobs."

Intrarom's prospects for swift expansion in its home market are likely to depend on the outcome of a three-way contest to buy a 30 per cent stake in Rom Telecom due to be decided later this year. The successful consortium will implement Rom Telecom's plans to speed digitisation of the fixed-line system over the next three years.

As a local telecoms supplier with international links, Intrarom would become a strong contender to manufacture digital equipment for Rom Telecom's fast-track modernisation programme, Mr Tsoukalides says.

Kerin Hope

CLOTHING INDUSTRY • by Kerin Hope

Big savings are in fashion

Much of Greece's garment making has now crossed borders where costs are lower

More than 200 Greek clothing manufacturers have shifted part of their operations across the border to the southern Balkans in a move which has brought considerable cost-savings to the industry.

Greece's garment industry is still the country's biggest export earner, but the high cost of labour has reduced its competitiveness and forced a broad restructuring of the sector over the past five years.

Clothing exports earned $417m last year, a 1.5 per cent improvement over 1996 but about 30 per cent lower than at the beginning of the decade, according to figures from the Greek Clothing Manufacturers' Association.

The number of workers employed in the industry has halved since the late 1980s and is continuing to shrink as more production is moved across Greece's northern borders. The number of small companies which employ up to 20 people is also decreasing.

"The trend is for Greek companies to look around the region for low-cost manufacturing centres," says Meletis Karabinis, director of the manufacturers' association. "These include Tunisia, Syria and Turkey, but the bulk of interests is focused on cross-border operations in the Balkans because the distances are so small."

Manufacturers in Thessaloniki, Greece's main centre for garment production, have set up operations in small towns in southern Bulgaria, less than three hours' drive away. Many Greek producers have transported secondhand sewing machinery, sold off by companies that have gone out of business, to factories across the border.

EU regulations permit the part-manufacturing of garments outside the Union, which are returned for finishing and exported as EU products. The Greek manufacturers export cloth which has already been cut to be made up across the border and shipped back to a Greek factory for finishing.

"For the sub-contracting arrangement to work successfully, the Greek manufacturer needs to be in close touch with the producer abroad. This is one reason why the cross-border workshops have proved a success," Mr Karabinis says.

Greek companies have also been able to make use of a trained workforce across the border. Workers in the towns of Petric and Goce Delchev in Bulgaria and at Korce in southern Albania produced garments for export to African countries in the communist period.

Productivity is still markedly lower than in Greece but has started to improve. Quality is also better than in the early 1990s as techniques adopted in Greece by manufacturers supplying customers in Germany, France and Belgium – the main markets for Greek clothing – are gradually introduced. Computerised sewing equipment is also becoming available.

"The strength of the Greek clothing industry lies in producing casualwear for women, children's knitted clothes and underwear," Mr Karabinis says. There are comparatively few brand name producers, but an increasing number of manufacturers are developing close links with retailers both in Greece and abroad.

Mr Karabinis predicts that in the next few years, as disposable incomes in the south Balkan countries increase, the Greek companies will also carry out finishing across the border and sell middle-of-the-range clothes though local retail chains.

Clothing exports are now worth more than $400m a year to Greece

Kyriakos Manetis, a Thessaloniki manufacturer who supplies a joint venture partner in Bulgaria with patterns, fabric and thread, says: "It is still mostly low added value that's being done on the other side of the border, but the number of companies producing to higher standards is rising each year."

About two-thirds of Greece's clothing manufacturers are small companies like Mr Manetis's, which employs 18 workers in a Thessaloniki suburb. They rely on joint ventures with a Bulgarian or Macedonian partner to make up comparatively small quantities of garments at short notice.

Mr Manetis says: "We have a lot of flexibility in this arrangement, but it's for the lower quality end of the market. Often one Bulgarian workshop will pass our order on to another if he's busy with a big order."

Some larger Greek companies are setting up subsidiaries across the border. Alexandros Zachmanides, chief executive of Indigo, an Athens-based manufacturer that makes casual clothes for labels that include Lee Cooper, Mustang and Lois, invested in setting up a factory outside Korce, half an hour's drive from the border with Greece.

"Costs were rising so fast in Greece that we had to choose between stopping production and becoming importers or go to the Balkans. A worker in Albania costs us 18 times less than one in Greece," he says.

Indigo employs 220 workers in Korce on a cut-and-sew basis; they send jeans, shirts and jackets to the company's two factories near Athens for finishing.

When violence spread to Korce last year following the collapse of Albania's pyramid savings schemes, Mr Zachmanides hired a local protection force to guard his factory from looters. "We lost 10 weeks' production and it took the best part of six months to recover," he says. "But the workers stayed on our side and we didn't lose any machinery."

VENTURE CAPITAL • by Kerin Hope

Funds provide a foothold

Optimism is growing about the investment climate in the Balkans

The difficulties of raising bank financing for investment in the Balkans has made venture capital or private equity funds attractive alternatives for Greek companies seeking to expand in the region.

The amounts required for an investment in Bulgaria or Romania are small by the standards of the international venture capital industry. But the estimated $45m made available so far has enabled more than 20 fast-growing Greek companies to gain a foothold in a broader market.

In both countries, Greece's venture capitalists have succeeded in weathering political and economic turbulence, which has slowed growth and delayed the establishment of a stable framework for foreign investment.

There is, however, increasing optimism that transition will speed up, although the Balkans will still lag far behind the fast-track reform countries of central Europe.

Angelos Plakopittas, chief executive of Global Finance, an Athens-based private equity management group which manages the EuroMerchant Balkan Fund, the region's first venture capital fund, believes that a corner has been turned.

"We feel very positive about Bulgaria. Privatisation has a real momentum now," he says. "Romania is a bit of a disappointment at present because the political will to reform is lacking, but in the longer-term it offers even more opportunities."

Participants in the EuroMerchant fund include the European Bank for Reconstruction and Development; the International Finance Corporation, the private sector lending arm of the World Bank; and EFG Eurobank, controlled by Latsis, the Greek banking and shipping group.

Four years after its launch, the closed-end fund is fully invested with $20m allocated in equity participations in 10 Greek investments in Bulgaria and Romania. The fund has invested alongside Greek companies or joint ventures in sectors ranging from food processing to furniture retailing and glass manufacturing.

Mr Plakopittas says that only one investment failed to show a profit last year, despite a sharp decline in output and soaring inflation rates in both countries.

However, the slow pace of capital market development in Romania and Bulgaria could affect the funds' planned exit strategy for investors, through flotations on local stock exchanges. Both the EuroMerchant fund and the Danube Fund, a private equity fund for Balkan investment sponsored by Greece's Alpha Credit Bank group, have provided an alternative arrangement.

Under 'put' options already agreed, the investment partners would be obliged to buy back minority stakes held by the funds.

The $25m Danube Fund, sponsored by Alpha Credit Bank, also includes the EBRD, the IFC, Bankers Trust International and ETVA, the Greek state development bank. It has taken equity stakes in offices being constructed in Bucharest, a Greek plastic pipe manufacturer's expansion into Romania, a leasing company in Romania, and a bank in Moldova in which the EBRD is also a shareholder.

The Danube Fund will shortly make its first investment in a non-Greek manufacturing company by taking an equity stake in a Macedonian garment producer, says Damianos Damianos, its chief executive.

"It will take some time for capital markets to develop in the south Balkans. Funds like ours are probably the only vehicle for emerging markets investors who are looking to diversify," Mr Damianos says. "We a have strong deal flow in the pipeline."

Political risks remain important, however. The EuroMerchant Albania Fund, a $10m fund with a similar structure which was set up to invest in Albania, has failed to get off the ground. It had planned to invest alongside Greek and Italian companies, the main foreign investors in Albania, in private-sector construction, manufacturing of consumer goods and in energy and agricultural projects.

The fund had set up an office in Tirana and was about to make its first investment when Albania was plunged into chaos following the collapse of a series of pyramid investment schemes. "We haven't yet called in any of the funding, and it's still not clear when we'll be able to start operating," Mr Plakopittas says.

Global Finance has broadened its horizons with the launch of the Black Sea Fund, a $100m closed-end fund which will invest in medium-sized companies in Bulgaria, Romania, Ukraine and Russia. It will also consider projects in the Caucasus, Moldova and Macedonia.

The EBRD and IFC have subscribed $20m and $10m respectively, while Latsis and AIG, the US insurance group, have each contributed $6m.

"We're following the initiative of Greek companies as they develop in eastern Europe and expand from Bulgaria and Romania into Ukraine and southern Russia. But we'll also seek to invest alongside other international companies in these areas," Mr Plakopittas says.

While opportunities for small ventures by Greek companies appear increasingly easy to identify, there appear to be fewer potential partners for projects involving more than one country. Commercial Capital, a $100m private equity fund sponsored by the state-owned Commercial Bank group, covers Greece, the Balkans and the Black Sea countries in the search for investments that can become internationally competitive.

It has committed almost $30m to 20 ventures over the past three years, mainly in Greece and Bulgaria but also in Ukraine, Romania and Russia.

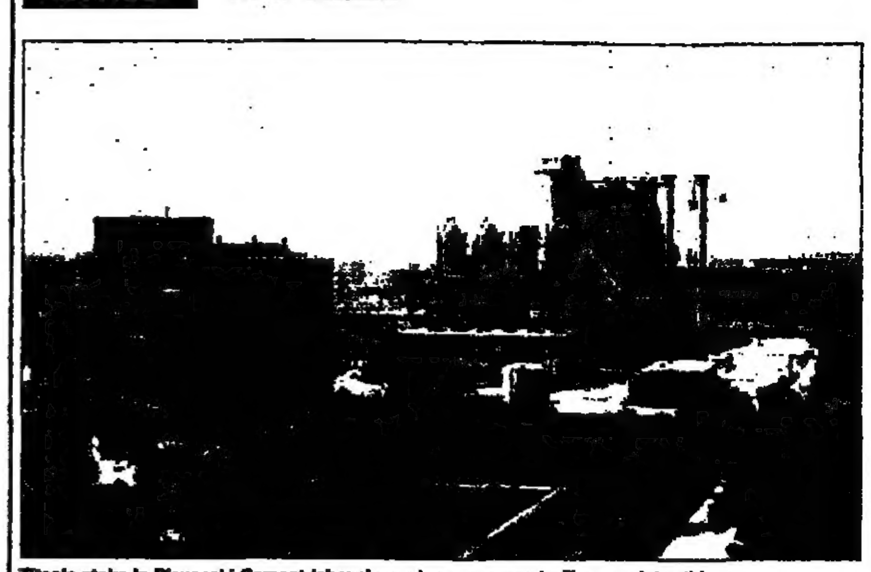
"The average size of deal is fairly small, between $100,000 and $3m per venture, but you need to build these businesses carefully," says Aristides Fronistas, Commercial Capital's managing director. "Often you're backing distribution before your partner moves into production so the initial capital needed isn't high."

Foreign direct investment
$m

	1985-1990 (annual average)	1991	1992	1993	1994	1995	1996*
Greece	711	1135	1144	987	981	1053	1004
Albania	–	-1	20	58	53	70	72
Bulgaria	1	56	42	55	105	90	150
Romania	–	40	77	94	341	419	624
Slovenia	–	–	111	113	128	176	180
Macedonia	–	–	–	–	24	14	8
Former Yugoslavia	15	118	84	25	–	–	–

Source: UNCTAD, FDI/TNC

PROFILE Titan Cement



Titan's stake in Plevenski Cement (above) may become a controlling one later this year

Recipe for a strong mix

Persistence has finally paid off for Titan Cement, Greece's second-biggest producer.

Following a series of failed bids for cement plants in Albania, Bulgaria and Macedonia, it has succeeded in acquiring a 48.6 per cent stake in Plevenski Cement, a Bulgarian producer, with the prospect of taking control later this year.

Fierce competition from its much bigger Swiss and German rivals raised the stakes too high for Titan in bidding for Bulgaria's two most accessible plants. Their position close to the Danube river puts them within easy reach of central European markets.

In Albania, Titan lost out to a Lebanese-owned cement trading company at an auction for a cement plant and quarry at Elbasan. Its bid for Usje, a profitable producer in Skopje, the Macedonian capital, was rejected as too low by the 1,400 workers who control the company.

Alexandra Papalexopoulou, strategic planning manager at Titan, declined to disclose the price paid for its stake in Plevenski, but said it was "a significantly lower price per tonne of capacity than for other Bulgarian plants that have been privatised."

The Greek company will manage the plant, which can produce 400,000 tonnes a year, and has agreed to invest in modernisation. While Plevenski is less well-placed for exporting, at a considerable distance from the Danube and the Black Sea, the cement market in the Pleven district is less depressed than elsewhere in Bulgaria.

Titan negotiated the deal not with Bulgaria's privatisation agency, responsible for selling state holdings in big industrial companies, but with a group of local investment funds. The funds acquired shares in Plevenski from workers, pensioners and small investors who participated in Bulgaria's mass privatisation programme.

However, Titan will bid for the state's 49 per cent holding in Plevenski, which is to be offered for sale later this year, Ms Papalexopoulou says.

With at least 9 per cent of the state's shareholding due to be offered to workers and pensioners, Titan is confident of acquiring formal control of the company, even if the privatisation agency rejects its cash bid for the other 40 per cent.

"We've taken a cautious attitude. We consider ourselves a regional player in the Balkans and the eastern Mediterranean, but we don't want to pay an inflated price for a plant which will need quite a lot of investment," she says.

Titan can produce up to 5.8m tonnes of cement yearly at four plants in Greece. It also owns a cement plant in the US, at Roanoke in Virginia with capacity of 1.2 tonnes yearly. Acquiring the Roanoke plant has helped Titan to boost cement exports to the US, but the company wants better access to the regional market.

Forecasting demand for cement in the Balkans is difficult, however, given the region's volatile politics and slow progress with the transition to a market economy.

Consumption has plummeted in Bulgaria, for example, from over 1m tonnes yearly under communism to around 400,000 tonnes yearly. In Albania, however, where a boom in private housing construction was only briefly interrupted by last year's political upheaval, consumption was estimated at almost 800,000m tonnes.

In the medium-term, a buoyant market should develop with the expansion of private house building and as infrastructure projects are launched with financing provided by international institutions and private investors.

"This region should follow the example of Greece in the 1960s, when a very high percentage of household savings was invested in building new homes," says an Athens-based contractor. "It's clear already that building homes and commercial properties is a priority for small businessmen who've made money in the transition process. The infrastructure will follow later."

Titan is interested in acquiring another plant in southeast Bulgaria, close to the border with the Greek province of Thrace, which is due to be privatised later this year. It also plans to renew its offer to buy a controlling stake in Usje, possibly with a strategic partner.

Competition among international cement producers to acquire capacity in Serbia, considered the last big opportunity in eastern Europe, is already keen.

Titan hopes to buy a plant that western European producers would find less attractive. One possible target would be Sar, a medium-sized plant in the rebellious Serbian province of Kosovo. Another is Kosteric, near Serbia's border with Bosnia, which "would come into its own as soon as reconstruction gets seriously under way in Bosnia", Ms Papalexopoulou says.

Kerin Hope

ECONOMIES • by Anthony Robinson

Disappointments cast shadow

Most countries in the region have yet to fulfil their potential

When Hong Kong and London-based fund manager Regent Pacific launched its Regent Balkan Fund amid considerable razzamatazz in London in June 1997 it presented the region to international investors as a sure-fire winner with great potential for well above average investor returns.

A year later investors are nursing an 8 per cent loss and a heightened appreciation of the risks, as well as the potential, of a complex region.

The closed-end fund attracted $63m from investors despite warning signs about the potential regional risks, including violent scenes of anarchy in Albania as the shockwaves emanating from failed pyramid schemes swept the country.

A further embarrassment was the refusal of Croatian government representatives to attend the launch. Croatia's involuntary inclusion in the fund was perceived as militating against the government's fervent desire to disassociate itself entirely from the Balkan tag.

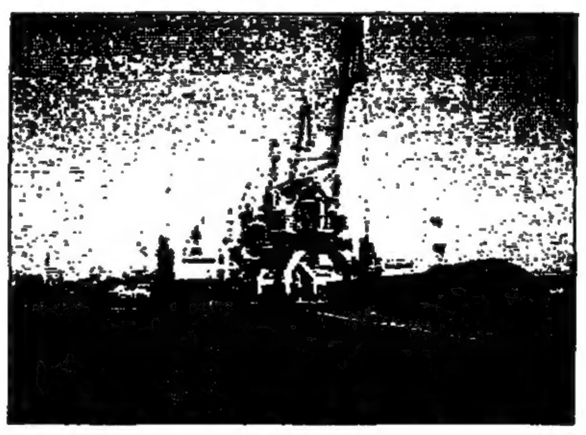
Cash inflows from Greek and Italian telecommunications companies investing in the partial privatisation of Serbian telecoms were used to sweeten pensioners and other pro-regime voters. The money also helped the regime finance the para-military police force subsequently unleashed upon Kosovo.

It is still not clear how far the shockwaves from the ethnic Albanian revolt in Kosovo will impact Albania's brave attempt at economic and financial re-stabilisation.

Fingers are also crossed in Macedonia, which has benefited from the partial re-opening of blocked trade routes through former Yugoslavia and the lifting of trade barriers by Greece. It needs to keep investor confidence as it prepares to sell off strategic stakes in both the state telecommunications company and Stopanska Banka, the biggest state-owned commericial bank.

But the greatest disappointment in the broader Balkan and Black Sea region of interest to Greek investors has been the virtual paralysis of the privatisation process and lack of serious reform in Ukraine. With more than 50m people and substantial under-developed farming, energy, mineral and other assets Ukraine remains a country of considerable investment potential – but unlocking it requires a political will and coherence currently lacking. It is unlikely to emerge until after next year's presidential elections, and even that is by no means assured.

Meanwhile, the structural recession in Romania as reformist governments embark upon delayed macro-economic and institutional reforms designed to squeeze inflation out of the system has also served to underline the fact that Romania, like Bulgaria before it, failed to accomplish deep-rooted structural reforms in the early 1990s.



Burgas, the Bulgarian port, has benefited from strong cross-Black Sea energy and energy-related trade Photo: Anthony Robinson

While Romania also offers considerable potential for canny, and especially hands-on, direct investors, it has proved premature for financial investors. The value of Romanian "blue chips" in Regent's fund portfolio, for example, dropped around 60 per cent in value over the last year, although this was partially recouped through investment in high-yielding T-bills.

In the longer run, the efforts of Romania's current reform-orientated government will create a more stable and transparent base for investment.

In the short-term, the best prospects for investors in the region appear to be in Bulgaria, Croatia and Slovenia.

Croatian asset prices fell in reaction to the Kosovo crisis, in which Croatia is actually not involved. But tight macro-economic management, a fast-reviving tourist sector and the performance of internationally-rcognised blue chips such as Pliva, the increasingly multinational pharmaceutical group, and Zagrebacka Banka, underpin the potential for steady growth and investment in a stable, low inflation environment.

Slovenia, with its high per capita income and status as one of the five first-round candidates for EU entry, is an attractive and geographically well-placed target for investment, with excellent port and rapidly-improving rail and road links to central Europe and northern Italy. But it still has to tackle social welfare, pension and other reforms and remains ambivalent about foreign investment which some fear would limit its new found independence.

Seen against this mixed regional panorama Bulgaria, the northern neighbour of Greece, stands out as the country which has shown the most positive development over the last 18 months. After seven largely wasted years of drift the economy has been transformed from basket case to turnaround story over this period.

The Union of Democratic Forces (UDF) coalition government led by the prime minister, Ivan Kostov, and his deputy, Alexander Bozhkov, was elected to power with a strong parliamentary majority last year. It replaced an incompetent socialist government which stepped down in the face of mounting popular protests.

The new government embarked upon previously-agreed IMF and World Bank-backed macro-economic stabilisation policies backed by a strict currency board foreign exchange regime with a fixed link to the German mark. From January 1999 the link will be transferred to the new euro, underlining Bulgaria's determination to qualify not only for EU membership early in the next century but also to fulfill the Maastricht criteria for eventual entry into Emu.

Romania, which plans to privatise a strategic chunk of Romtelecom and a large state bank this year, has a similar ambition. Both countries are fired by the examples of Spain and Portugal which enjoyed heavy foreign investment inflows in the run-up to EU membership. The Greek experience is also relevant here, although Athens was less successful in creating the political and other conditions for attracting private investment in the run-up to entry.

The Bulgarian turnaround has underlined the importance of the political factor, and above all the need for political will and popular support for reform in order to secure a solid basis for foreign and domestic investment.

IMMIGRATION • by Kerin Hope

Athens has to tighten the rules

Immigrants are now thought to number 13% of Greece's labour force

Thousands of immigrants have carved out their place in the Greek labour market, but for some there is only despair Photo: AP

Minas Adami tramped over the mountains dividing Greece from Albania seven years ago in the first wave of immigrants seeking refuge and jobs. An office worker at Kesh, the Albanian power utility, he says he was passed over for promotion under communism because he belonged to the ethnic Greek minority living in southern Albania.

Mr Adami washed dishes in tavernas and worked on construction sites where he learned new skills. As a house painter, he earns enough to live comfortably in Athens and has bought property in his native village. Most of his close relatives have also moved to Greece.

"Two years ago I was planning to move back home and set up my own contracting business," he says. "Then came the pyramid scandals and the violence. For the moment I don't think it's worth going back."

The collapse of a series of pyramid savings schemes in Albania last year plunged the country into anarchy. Many Albanians had invested their savings from working in Greece in the schemes.

In 1996, Albanians sent home an estimated $400m, according to officials at Greece's economy ministry. Remittances declined last year, however, as the violence in Albania continued, with more Albanian immigrants choosing to deposit their savings in Greek banks.

Greece's labour ministry estimates there are more than 300,000 Albanians working illegally in Greece. They are part of a huge immigrant community which includes Poles, Russians, ethnic Greeks from the Caucasus, Filipinos, Ethiopians and Nigerians. Immigrants are thought to number more than 500,000, equal to 13 per cent of Greece's labour force.

"The Albanians have carved out their own place in the Greek labour market," says a labour ministry adviser. "There is some seasonal movement because of agriculture and the tourist industry, with people coming and going across the mountains. But at any one time, almost 10 per cent of Albania's population can be found in Greece."

Villages in southern Albania are almost deserted because of the exodus to Greece by the minority. Mr Adami says that because of his Greek origins he and his family were able to settle in Athens "without too many problems".

But Violetta Gjoka, who speaks little Greek, was unemployed for most of last winter. A former bookkeeper, she returned to Greece with her family after they lost more than $30,000 in the collapse of the pyramid schemes.

"We sold our flat and put the money in a pyramid scheme. There wasn't any choice; we had to come back to Greece and start again," she says. "Last time I worked as a chambermaid in a hotel on Santorini for the summer, but now I have to find work all year round."

Mrs Gjoka's husband works part-time as a cook. Her son is training to become a mechanic. Her daughter goes to a Greek high school and works in a supermarket at weekends. They share a three-room flat with another Albanian family in an immigrants' neighbourhood of Athens.

"This is a very difficult time," she says, "but we'll go back as soon as we've saved enough money to build a house."

Until recently the Greek government chose to ignore the presence of the illegal immigrants, although young Albanian men were periodically rounded up by police and deported.

The Greeks' own tradition of emigrating to Germany, Australia and the US to escape poverty, which lasted from early this century until the 1970s, encouraged a tolerant attitude. The large influx of immigrants willing to work for less than the official minimum wage boosted output in Greece's large underground economy and helped keep down growth in labour costs.

But Albania's descent into political chaos and violence highlighted the need for tighter controls on immigration. Greek police reported seizures of drugs and automatic weapons looted from army depots in Albania. Immigrants from Albania were accused of organising robberies and running prostitution rings in Athens.

The Socialist government has adopted a new policy of offering work and residence permits to all immigrants. Although the procedures are complicated and time-consuming, more than 300,000 immigrants – mostly Albanians – have registered to receive the permits since the new measures were announced in January.

At the end of the process, successful applicants will have a "green card" entitling them to work in Greece, but they and their employers will have to pay social insurance and health contributions. The government warns that immigrants who fail to register will be deported.

The new arrangement fulfils a longstanding request by the Tirana government for Greece to issue temporary work permits to as many Albanian immigrants as possible. It is also designed to relieve pressure on Greece's cash-strapped state health and pension schemes.

"In the longer-term a large number of Albanians are going to settle permanently in Greece and compete with Greeks for jobs," the labour ministry adviser says. "But the potential for social tension will be much less if they are paid-up members of the workforce."

FOOD AND BEVERAGES • by Kerin Hope

Satisfying an appetite

Manufacturers in Greece reap their rewards for exploring some untapped markets

While traditional food stalls continue in the Balkans, imports of Greek snacks are finding enthusiastic markets Photo: AP

The Greek food and beverage companies which penetrated the Balkan markets in the early 1990s have started to see a return on their investment. Demand for soft drinks, ice-cream and snacks is increasing at a rapid rate, although the region's consumers have the lowest disposable incomes in Europe.

Manufacturers responded swiftly to the opportunity of exploring a virtually untapped market several times bigger than Greece. Some Greek companies even saw the risks posed by the violent break-up of federal Yugoslavia as a comparative advantage, because they deterred western European competitors from joining the market.

Greece's two biggest food and beverage companies made their first investments in the region through joint ventures with state-owned enterprises in Bulgaria. The deals were concluded some time before the country's official privatisation process was launched.

Hellenic Bottling Company, the Coca-Cola franchise-holder for Greece, went into partnership with five regional soft drinks bottlers around Bulgaria to relaunch the Coca-Cola brand. It also acquired control of Zagorka, the country's leading brewery, through a joint venture with Athenian Brewery, the Heineken affiliate in Greece.

Delta Dairy, the biggest Greek milk and ice-cream producer, set up a joint venture with Vitalact, a state-owned dairy producer, to make ice-cream in the Bulgarian port of Varna.

Both companies also made substantial investments in establishing local distribution networks, building warehouses and importing delivery trucks and refrigerating equipment from Greece.

"Greece was becoming a mature market in our sector," says John Polykandriotis, Delta Dairy's international business director. "We were ready to expand, But it became obvious very early on that it would mean investing in manufacturing capacity rather than relying on distribution from Greece."

Mr Polykandriotis says Delta, the only western ice-cream producer operating in Bulgaria, has captured 70 per cent of the ice-cream market. Production has increased at the Varna plant, bringing Delta's total investment in Bulgaria to $13m.

However, the dramatic deterioration of Bulgaria's economy in 1996 and early 1997 had a damaging impact on both companies' sales. A soaring inflation rate eroded disposable incomes, with workers in the large state sector receiving salaries several months in arrears.

Consumption of soft drinks fell by 20 per cent as the value of the lev, the Bulgarian currency, plummeted against the US dollar. Although HBC claimed a 60 per cent share of the soft drinks market, its Bulgarian operation made losses of Dr2bn in 1996 against profits of Dr1.9bn the previous year.

As stability returned, HBC's sales rose sharply. Loukas Komis, corporate affairs director, says: "The market bounced back very fast last summer. Soft drinks consumption in Bulgaria has increased to the point where it's trailing the low-consumption end of the western European market."

Delta coped with the Bulgarian crisis by increasing exports of ice-cream from the Varna plant to Romania and opening up a new market in Ukraine.

Delta is also the only western ice-cream producer in Romania, through a joint venture with Queen, a Bucharest-based producer. Delrom/Queen has spent $6.5m on upgrading production and will invest heavily in distribution this year to increase its points of sale to at least 10,000.

This summer, Delta Dairy will start producing ice-cream in Serbia through a joint venture with a local partner. It has invested $20m in building a greenfield plant outside Belgrade and developing a distribution network with 5,000 outlets.

The example of HBC and Delta is being followed by Chipita, an innovative snacks manufacturer which pioneered packaged croissants in Greece and now produces them in Portugal, Egypt and Bulgaria.

Chipita had just started production at a $4.9m greenfield plant outside Sofia when the Bulgarian economic crisis hit. Yet sales were higher than projected in 1997, at $4.7m, and the Bulgarian subsidiary posted pre-tax profits of $700,000.

Like Delta Dairy, the company switched to exporting, opening new markets in Ukraine and Russia. It also developed a cheaper croissant to cater for consumers in straitened circumstances.

"The research shows that packaged croissants are most acceptable in countries with a lower per capita income," says Costas Apostolides, Chipita's managing director. "We've got to the stage where we can be very flexible with ingredients."

PROFILE *Hellenic Bottling Company*

Coke prospects are fizzing

Hellenic Bottling Company (HBC), the Coca-Cola franchise-holder for Greece, Nigeria and Ireland, has set the pace for Greek investors in the Balkans and former Soviet Union.

The group has invested about $300m in bottling plants and other facilities for the additional Coca-Cola franchises it has acquired for Bulgaria, Romania, Armenia, Moldova, Serbia, Macedonia and parts of the former Soviet Union.

HBC has played a significant role in the Coca-Cola company's expansion in eastern Europe, which has displaced Pepsi Cola from the market leadership it held in the region under communism. It has opened up new markets in the former Soviet Union, where its territory stretches from Moscow to Siberia, covering a region with a 40m population.

However, the Atlanta-based company does not hold an equity stake in HBC and it is not included among Coca-Cola's new group of anchor bottlers for Europe. HBC, which is listed on the Athens stock exchange, is controlled by Leventis, the Cypriot group with interests ranging from retailing to telecommunications.

Loukas Komis, HBC's corporate affairs director, says that much has changed since HBC set up its first Balkan operation in Bulgaria, forming joint ventures with co-operative soft drinks producers in five cities in order to achieve the widest possible distribution of the Coca-Cola brand, before building a greenfield plant in Sofia.

HBC suffered a setback in Bulgaria in 1996, when losses caused by soaring inflation and a collapse in the value of the lev, the Bulgarian currency, reduced the group's consolidated profits by 8.4 per cent. Consumption of Coca-cola and other soft drinks declined sharply and heavy losses were incurred on imports of raw materials, which are denominated in US dollars.

The group has since completed a restructuring which puts its Coca-Cola franchises in established and emerging markets under one umbrella. HBC last year acquired Molino Beverages, the Luxembourg-based holding group for Leventis's soft drinks operations in Nigeria, Ireland and eastern Europe with the exception of Bulgaria.

HBC already held a 30 per cent stake in Molino and financed the acquisition of the remaining 70 per cent by issuing 20m new shares which were distributed to the Leventis shareholders.

The consolidation has created a soft drinks group which covers 11 countries with a total population of 205m. HBC's sales last year reached Dr273bn, with pre-tax profits amounting to Dr38bn. Prospects for growth look promising as production at HBC's three Russian plants will be in full swing this year. The Bulgarian economy has picked up, while conditions in Romania appear to be stabilising.

HBC's acquisition of IBD Belgrade, has reactivated Coca-Cola production in Serbia after a gap of almost a decade. It paid $24m for a 68 per cent equity stake and has invested another $17m in modernising the plant and improving distribution.

"Serbia has economic problems but it also has a well-established soft drink culture and it's a similar-sized market to Greece. It should do well this year," says Mr Komis.

However, with more than half its sales coming from emerging markets, the group will remain exposed to the effects of currency fluctuations.

To support its bottling operations in emerging markets, HBC has a 30 per cent stake in Frigoglass, another Leventis company which produces coolers for soft drinks, glass bottles and plastics products at plants in Greece, Bulgaria Romania, Nigeria and Indonesia.

Frigoglass already producers coolers in Romania and has acquired a glass producer in Bulgaria. It is planning a listing on the Athens stock exchange to finance an increase in production capacity which is needed to serve its growing markets.

Kerin Hope

HEALTH • by Kerin Hope

Diseases know no borders

Poor standards in the Balkans and a stream of illegal immigrants cause concern

Worsening standards of public health in the southern Balkan countries since the collapse of communism have become a cause for concern in Greece.

The large numbers of illegal immigrants to Greece from Albania, Romania and the former Soviet Union, countries where immunisation programmes have been curtailed because of shrinking budgets, pose a difficult challenge for Greece's public health authorities.

"Infectious diseases that had been brought under control are reappearing as a result of migration," says Prof Jeffrey Levett, of Greece's National School of Public Health. "Illegal migrants can easily miss out on immunisation programmes and they can't easily be tracked by the health authorities."

Greece's tourist industry, the country's main source of foreign exchange earning and its biggest employer, is potentially at risk from an outbreak of infectious disease transferred across borders. Albania, for example, has a high number of hepatitis cases and has seen outbreaks of polio and cholera in the past three years.

In Bulgaria, tuberculosis has reappeared and a handful of cases of malaria have been reported, apparently as a result of the arrival of Asian immigrants.

Prof Lyubomir Ivanov, of Bulgaria's Public Health Institute, says: "The very deep decline in living standards since the economic system changed has brought a revival of diseases which are associated with poverty and poor sanitation. Life expectancy has declined, not just in Bulgaria but across the region, since the late 1980s."

The Socialist government's programme for registration of immigrants who want to obtain residence and work permits includes a compulsory check-up for applicants and enrolment if required in an immunisation programme, a health ministry official said.

Greece provides free healthcare for immigrants at state hospitals under a special provision for treating people without means. The quality of care provided is not always comparable with western European standards, but these facilities are widely used by immigrants.

"Albanians will make a special trip to Greece to seek free treatment at the university hospital in Ioannina, the nearest big hospital to the border," the official said. "Not necessarily because they can't afford treatment at home, but because local hospital facilities are very poor."

The NSPH is trying to build partnerships with similar institutions around the Balkans to develop a regional early warning scheme for notifying cases of infectious disease, and sharing information on cross-border pollution and veterinary problems.

Many rivers in the Balkans carry untreated sewage and mining waste. Both the Vardar river in Macedonia and the Mesta in Bulgaria, which carry untreated industrial waste, flow through Greek farmland before reaching the Aegean. Recent outbreaks of foot-and-mouth disease in Greece and Macedonia have been blamed on the unrestricted movement of infected sheep and cattles across Balkan borders.

"You need intensive co-operation between countries to make information accurate and accessible and make sure that the spread of infectious diseases can be contained," Prof Levrett says

However, the Balkan countries are short of funds to improve standards of for public health, and face serious problems in allocating resources following the virtual collapse of communist-era health systems. "Healthcare systems are having to be redesigned on a completely new basis," Prof Levrett says. "The state systems, with extensive infrastructure for healthcare, have disintegrated. There is an over-supply of doctors and hospital beds but care is of very low quality."

Collaboration is still at an early stage, but Greece's NHSP is co-operating with the founders of a new public health institute in Albania and is developing closer contacts with its counterparts in Bulgaria and Romania with the aim of developing cross-border training schemes and co-operation on health management and policy-making.